

Dunedin City Council

Project Lewis - Investigation Report

Dated August 2014

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1. Executive Summary

Background

- 1.1. In late May 2014, Dunedin City Council ("DCC" or "Council") began investigating discrepancies that had been identified between the record of Council owned vehicles held by its insurance provider and the record contained in its Fixed Asset Register ("FAR") held by Council's finance department. All vehicles are contained within Council's Citifleet Division ("Citifleet").
- 1.2. [REDACTED] (Council Financial Analyst) asked Brent Bachop (Citifleet Team Leader) ("Mr Bachop") to assist in identifying the reasons for the discrepancies. Initially a total of 129 vehicles still on the FAR were identified by Mr Bachop as being no longer owned by Council (or in the possession of Council). Mr Bachop informed Council staff that he had sold a number of vehicles to staff members and to members of the public. It was unclear how the proceeds for these vehicles had been accounted for.
- 1.3. Mr Bachop died suddenly on 21 May 2014. His death has since been referred to the coroner.
- 1.4. Deloitte was engaged on 23 May 2014 to assist with the investigation of these matters. The focus of our investigation was:
 - (a) Determining the facts and circumstances in respect of the disposal of the vehicles no longer owned by Council; including the number of vehicles disposed of, the method of disposal and how proceeds for the disposal had been accounted for;
 - (b) Ascertaining whether any other fraudulent activity had occurred;
 - (c) Preparing a file to support a complaint to the Serious Fraud Office/Police if there was sufficient evidence;
 - (d) Calculating the loss suffered by Council as a result of fraudulent activity identified (if any); and
 - (e) Providing assistance with the civil recovery of the Council's loss (if any). This involved identifying assets or other means of recovery available to Council and assisting Council's legal advisors as required.

Investigation Outcomes

- 1.5. Our investigation has revealed a range of fraudulent activities. It appears that the actions of Mr Bachop are at the centre of these activities. Set out below are a number of key questions that we have sought to answer as we have conducted our investigation.

How was the vehicle disposal fraud committed?

- 1.6. We have identified two primary ways by which Mr Bachop caused loss to Council via the disposal of vehicles:
- (a) Council owned vehicles were sold to third parties and Mr Bachop kept all the proceeds. In certain instances ownership was transferred from Council to Mr Bachop shortly before the sale of the vehicle to the third party. We have identified one instance where a cheque made payable to "DCC" appears to have been over written so that the payee read "B Bachop";
 - (b) Council owned vehicles were sold to third parties and the proceeds received by Council were significantly less than the independently verified wholesale value of the vehicle at the time of the sale. It appears that Mr Bachop either kept a significant portion of the sales proceeds or sales were conducted at significant discounts to the wholesale value of the vehicle at the time of sale.
- 1.7. A number of significant control failings have contributed to these issues. We have summarised these below under the heading "*Control Failings and Culture at Council*" below (see paragraph 1.51).

How many vehicles were involved?

- 1.8. The table below summarises our findings with regards to the 274 vehicles that have been disposed of by Council during the period under investigation, being July 2003 to May 2014.

Classification	Number of vehicles
<i>Disposed vehicles for which ownership history and valuation data were obtained and no proceeds received by Council</i>	113
<i>Disposed vehicles/assets for which ownership history and valuation data could not be obtained and no proceeds received by Council</i>	39
Sub total 'high risk population'	152
<i>Disposed vehicles/assets for which ownership history and valuation data were obtained – proceeds received by Council</i>	72
<i>Disposed vehicles/assets for which ownership history and valuation data could not be obtained – proceeds received by Council</i>	31
<i>Trailers/other assets deemed not at risk</i>	19
Sub total	122
Total vehicles disposed	274

As stated in the table above, there are 152 vehicles that Council has not received proceeds for. Our investigation primarily focuses on these vehicles.

- 1.9. We have provided a further breakdown of these vehicles and the losses associated with them in paragraph 1.28.

Over what time period was the fraud conducted?

- 1.10. We have been given information that Council vehicles were sold to members of the public prior to Mr Bachop taking over the position as Team Leader Citifleet in December 2003. We have however focussed our efforts on transactions that have taken place in the period July 2003 to May 2014 as July 2003 is the date that Council implemented its new financial system. There are significant difficulties associated with obtaining and analysing information from Council's former financial system.
- 1.11. Our investigations have identified potentially fraudulent transactions throughout the period from October 2003 to February 2014.
- 1.12. We understand Council has considered the costs and benefits of broadening its investigation beyond the period that we have focussed our investigation on. The focus has remained on the period we have investigated due to the change in financial system as the costs of obtaining data from the former system would be significant.

Were other Council staff involved?

- 1.13. It was common practice for Council staff to purchase vehicles from Citifleet, with the entire process being managed by Mr Bachop. We have identified 24 current and former staff and Elected Members who have purchased 27 vehicles from Mr Bachop (these figures exclude staff members in the clusters of related parties described in paragraph 1.18).
- 1.14. Of the 27 vehicles, we have been unable to obtain valuations for 7. For vehicles where we have been able to obtain values, in 7 cases Council records show no proceeds being received for these vehicles. In the other 13 cases, proceeds were recorded as being received by Council.
- 1.15. It is also evident that certain Council [REDACTED] were aware that multiple vehicles were being sold to members of the public and they assisted in the sale of these vehicles by delivering them to the purchaser. The staff members we spoke to that were involved in this explained that while they felt uncomfortable carrying out this task, they did not raise their concerns with anyone other than Mr Bachop, who allegedly informed them that the process was within Council policy.
- 1.16. Other than obtaining vehicles at a discount to wholesale market value, we have found no evidence that any Council staff member other than Mr Bachop benefited financially from the fraud (i.e. via receipt of proceeds for vehicles from Mr Bachop). [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 1.17. The Police may be interested in interviewing the staff members who paid for vehicles for which Council received no proceeds and/or paid the Council materially less than the market value of the vehicle.

Were third parties involved?

- 1.18. Our investigation has identified a number of clusters of related parties who purchased multiple vehicles from Mr Bachop. These include [REDACTED] (11 vehicles), [REDACTED] (17 vehicles), [REDACTED] (14 vehicles). [REDACTED]
[REDACTED]
- 1.19. Individuals have been interviewed from each of these clusters and all stated that they believed Mr Bachop had authority to sell the vehicles on behalf of Council. They stated that their understanding was that either proceeds were paid to Mr Bachop and were repatriated to Council or they were informed by Mr Bachop that he had previously purchased the vehicle from Council and it was his to sell.
- 1.20. In addition to this a total of 19 vehicles were sold to [REDACTED] Mr Bachop transferred ownership of the majority of these vehicles from Council to himself before on selling the vehicles.
- 1.21. In 55 cases where vehicles were sold to these clusters, Council did not receive any proceeds from the sale of the vehicle. In a further 4 cases, proceeds were received by Council (for the remaining 2 cases we could not obtain sufficient data on the vehicle to conduct meaningful analysis). A number of these vehicles were on sold after having been owned for very short periods of time.
- 1.22. The Police may be interested in interviewing these 'clusters', particularly the situations where:
- (a) The funds were paid to Mr Bachop; and/or
 - (b) The vehicles were purchased at a significant discount; and/or
 - (c) The vehicles were on sold after a short period of time.
- 1.23. We have also identified a number of motor vehicle dealers who purchased multiple Council vehicles from Mr Bachop, [REDACTED] (7 vehicles), [REDACTED] (3 vehicles) [REDACTED] (4 vehicles). In certain instances proceeds were paid by these dealers to Mr Bachop despite the Motochek or Vehicle Information Report details showing that the vehicle was owned by Council.
- 1.24. Again, the Police may be interested in interviewing the people involved to understand why they paid the funds or otherwise provided value to Mr Bachop personally when in some of the situations it was clear that Council owned the vehicles.

Have other potentially fraudulent matters been identified?

- 1.25. We have completed a review of a number of other areas within Citifleet that were highlighted by individuals that have been interviewed. This targeted review identified five other potential issues:
- (a) Council has a number of "all service" fuel cards that can be used to make purchases of any kind at petrol stations. We have identified a minimum of \$102,908 of personal expenditure since the inception of the fuel cards to May 2014 that appears to have been

incurred by Mr Bachop using these cards. This amount is made up of miscellaneous items and fuel purchases that appear to be for personal vehicles;

- (b) We have identified the purchase by Council of a Suzuki Trail Bike (Model DRZ 400) on 30 July 2008 (purchase price \$7,333 exclusive of GST) that appears to have been purchased for personal use by Mr Bachop. We can find no record of this bike on Council's fixed asset register and Mr Bachop paid for a service of this bike on 31 May 2009 out of his own funds;
- (c) [REDACTED]
- (d) We have been informed [REDACTED] that a total of \$104,800 in cash cheques were written by Council in the period 06 December 2010 to 23 December 2011 to replenish pay stations in the Moray Place car park. Each of the requests was approved by Mr Bachop. We have been informed that Mr Bachop was the only staff member that cashed the cheques at the bank and that there was little in the way of paperwork supporting these transactions. It is currently not possible to ascertain whether Mr Bachop cashed cheques and kept a portion of the cash himself; and
- (e) We have been informed by a former staff member that they saw Mr Bachop replace worn parts in his personal vehicle with less worn parts from a Council vehicle on one occasion (including door handles, footrest mats and other upholstery items). We were informed that this took place prior to Mr Bachop being promoted to the role of Team Leader Citifleet in December 2003.

What is the loss to Council?





1.26. The table below summarises our calculation of the loss to Council

Activity	Loss (\$)
Fraudulent disposal of Council vehicles*	\$1,140,539
Interest calculated on the loss above	\$335,600
Personal expenditure using Council fuel cards	\$102,908
Purchase of trail bike	\$7,333
Personal use of Council vehicles	Unable to quantify
Inappropriate use of cash from Council cheques drawn	Unable to quantify
Replacement of car parts	Unable to quantify
TOTAL LOSS	\$1,586,380

*see paragraph 1.28 for details of this calculation

1.27. For all vehicles in each of the categories set out in paragraph 1.6 above we have obtained a wholesale valuation, as at the time of disposal, from an independent specialist third party vehicle valuer (Auto Information Limited ("The RedBook")).

1.28. We have then accounted for any proceeds received by Council in respect of each vehicle. The difference between the wholesale valuation and the proceeds received is the loss to Council as at the time of sale. Please see table below.

	Able to trace/value				Unable to trace/value	Total	
	No proceeds received by Council		Proceeds received by Council				
	Number of vehicles	Estimated loss (\$)	Number of vehicles	Estimated loss (\$)	Number of vehicles	Number of vehicles	Estimated loss (\$)
Purchaser							
	17	284,152	1	2,310	1	19	286,462
Council staff	7	34,783	13	28,888	7	27	63,671
	9	68,478	2	13,000	-	11	81,478
	16	112,065	1	7,261	-	17	119,326
	13	84,500	-		1	14	84,500
Others	51	326,326	36	63,776	71	158	390,102
Sub total	113	910,304	53	115,235	80	274	1,025,539
Turners	-	-	19	-	9	28	
Sub-total	113		72		89	274	1,025,539
Nominal loss ascribed to 39 vehicles that were unable to be traced (refer 1.32)							115,000
Sub-total							1,140,539
Interest							335,600
Grand Total							1,476,139

1.29. The primary focus of our investigation is the 113 vehicles we were able to trace/value where no proceeds have been received by Council and the 39 vehicles we were unable to trace/value where no proceeds have been received by Council, totalling 152 vehicles.

We calculate the loss to Council before interest and costs as being \$1,025,539 for those Council vehicles where we have been able to trace the ownership history and obtain valuations.

1.30. We have then accounted for the time value of money by applying an interest rate as set out in the 1908 Judicature Act to calculate a total loss figure as at 31 July 2014. The interest on this loss as at 31 July 2014 is \$335,600, giving a total loss of \$1,361,139 on the disposal of Council vehicles as at 31 July 2014 where we have been able to trace the ownership history and obtain valuations.

1.31. For the 89 assets where we have been unable either to trace the ownership history or obtain valuations we have calculated a nominal loss according to the methodology set out in the following paragraph.

- 1.32. In 31 cases, Council has recorded proceeds as being received for these vehicles so we have excluded these from our loss considerations. We have then ascribed a nominal value based on the type and age of the asset to the remaining population as follows:

Classification	Number	Nominal loss ascribed (\$)
Car (nominal value \$5,000 per vehicle)	11	\$55,000
Truck/Tractor (nominal value \$3,000 per vehicle)	16	\$48,000
Scooter/Motorcycle (nominal value \$1,000 per vehicle)	12	\$12,000
Sub-total	39	\$115,000
Trailer/Caravan	8	\$0
Other vehicle related assets	11	\$0
Sub-total trailers/other assets deemed not at risk	19	\$0
TOTAL	58	\$115,000

How much money did Mr Bachop receive for the fraudulent sale of vehicles?

- 1.33. It has been problematic identifying a complete and accurate picture of the proceeds received by Mr Bachop as a result of his activities. This is due to the lack of paperwork in respect of sales made and the fact that many of the sales were cash transactions. [REDACTED]
[REDACTED]
[REDACTED] Analysis of these statements has identified a minimum of \$349,000 of deposits that we believe are likely related to sales of Council vehicles. We have asked the bank to trace these transactions. In addition to this Mr Bachop received at least \$72,000 as value for Council cars that were traded in by him for the purchase of new personal vehicles.
- 1.34. It is likely that the total figure received by Mr Bachop in respect of the fraudulent sale of vehicles is significantly greater than the sum of these two amounts as we have been informed of a number of payments that were made to Mr Bachop in cash.

- 1.35. [REDACTED]
[REDACTED]

What did Mr Bachop do with the proceeds?

- 1.36. We have not completed a detailed tracing process. However it is clear the \$349,000 deposited into Mr Bachop's bank account has been mainly spent on a high volume of low dollar transactions [REDACTED]
[REDACTED]
[REDACTED]
- 1.37. With the exception of two mountain bikes, we did not identify any material assets that have been purchased using these funds.
- 1.38. It is not possible to ascertain what Mr Bachop did with proceeds he received in cash. [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

Has a complaint been made to the Police?

1.39. We have kept in regular contact with both the Serious Fraud Office and the local Police to keep them informed of the progress of the investigation.

1.40. Council has informed us official complaints will be laid with the New Zealand Police.

Have steps been taken to recover Council's loss?

1.41. Council has engaged its legal advisors to assist with the recovery efforts. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

1.44. [REDACTED]
[REDACTED]
[REDACTED]

(a) [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

1.45. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

1.46. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

1.47. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

1.48. [REDACTED]
[REDACTED]

The purchasers of the vehicles

1.49. Subject to legal advice, Council may have a claim against the purchasers of the vehicles. We can complete further work on establishing the potential assets available to satisfy any such claims once Council and its legal advisors have considered this report.

Insurance

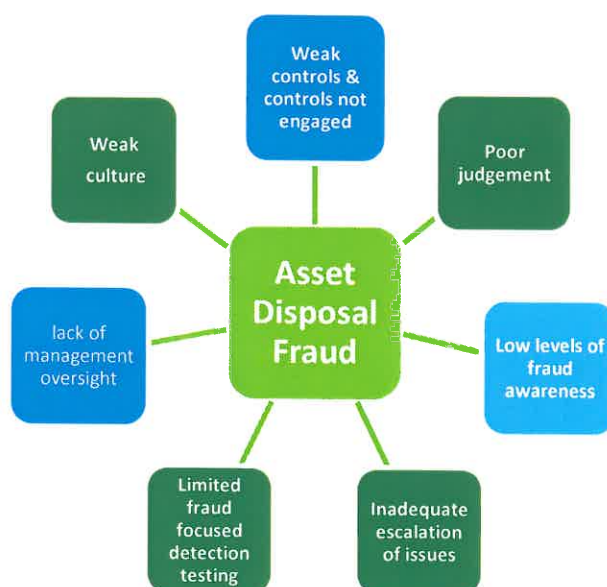
1.50. The Council is insured by QBE under its "Crime Policy" with a sum insured of \$1.0 million. QBE has been notified of the claim and are being provided with regular updates as to progress.

Control Failings & Culture at Council

1.51. There are a number of specific controls that failed at Council. The key outcomes of this are summarised below.

What were the internal control failings that led to the fraud?

1.52. We have summarised the control failings that contributed to the fraud below. Each of these, along with recommendations for improvements, are described in detail in a separate report that has been provided to Council. The following graphic summarises the factors that enabled this employee fraud to occur at Council:



We make the following comments with regards to specific failings:

- (a) We believe a number of aspects of the Council's culture at the time contributed to an environment where this fraud could be perpetrated for such a long period of time.
- (b) Purchase of Council assets by Council staff was an accepted practice – this included vehicles, gym equipment, IT equipment and copier paper;
- (c) The processes for accounting for and monitoring fixed assets were severely deficient. This included a lack of reconciliations in respect of purchases and disposals, a lack of any form of fixed asset verification, a lack of enquiry with respect to why certain assets were being disposed of and a lack of monitoring of vehicle volumes and operating costs per vehicle;
- (d) [REDACTED] delivered vehicles that were being sold to third parties by Mr Bachop. They were also aware that one particular third party [REDACTED] was purchasing large numbers of vehicles. They did not voice these concerns with the appropriate level of management;

- (e) A number of red flags, including Mr Bachop's lifestyle exceeding his salary and Mr Bachop [REDACTED] were ignored;
- (f) The lack of a meaningful fleet replacement programme resulted in an inability to track budgeted disposal proceeds against actual;
- (g) There was confusion in respect of what policy was to be followed in respect of the disposal of vehicles (and where responsibility lay for ensuring policy was followed);
- (h) A lack of monitoring and oversight of Mr Bachop's activities with respect to the disposal of Council assets. Mr Bachop exploited this and was able to manage the asset disposal process with no input from any other staff member;
- (i) A lack of effective monitoring and oversight with respect to the purchase of assets also allowed Mr Bachop to purchase a motorbike using Council funds that we believe was for his personal use;
- (j) Recommendations in respect of verifying Citifleet assets and ensuring that the Citifleet fixed asset register was complete and accurate (made in internal audit reports dated May 2006 (*Non-infrastructure Fixed Assets Internal Audit Review*) and December 2013 (*Fleet Charges Methodology Review*) were not investigated/implemented;
- (k) The lack of proper review of Council fuel card expenditure allowed Mr Bachop to use the fuel cards in his possession to make significant personal purchases.

Are there employment issues for Council staff [REDACTED]?

- 1.53. It is our view that failings on the part of a number of Council staff [REDACTED] [REDACTED] have contributed to the fact that multiple frauds have been conducted and remained undetected for such a long period of time. We have provided Council with our detailed findings with regards to these findings in a separate report.

What steps have Council undertaken to address these issues?

- 1.54. Council has undertaken the following steps in its efforts to improve its control environment, both in the period prior to and since the discovery of the activities of Mr Bachop:
- (a) Senior Council staff issued a directive in March 2014 that all purchases by staff of Council vehicles are stopped with immediate effect;
 - (b) Engaged Deloitte on 23 May 2014 to fully investigate these matters and to take steps to recover losses identified;
 - (c) Performed a physical verification exercise on all assets currently owned by Citifleet;
 - (d) Developed a contract register that records the key details of all contractual relationships;
 - (e) Undertaken a review of Council Credit Card ("P Card") expenditure by certain key staff;
 - (f) Undertaken a review of expenditure on all fuel cards associated with Citifleet;

- (g) Begun implementation of a number of the recommendations we have made in this report; and
- (h) Made improvements to the whistleblowing policy.

Next Steps

1.55. We recommend that Council:

- (a) Continue liaising with the Police in respect of its investigation;
- (b) Continue with working with its legal advisors in addressing employment and recovery issues. [REDACTED]
- (c) Continue liaising with its insurer and make a claim under the relevant policy;
- (d) Address the specific control weaknesses identified as a matter of urgency. We note that a number of recommendations we have made are already in the process of being implemented.
- (e) Complete a number of wider counter fraud steps including an organisation wide Counter Fraud Gap Analysis and Fraud Risk Assessment (noting a Fraud Risk Management Review has been completed by Council and will assist this process), as well as fraud awareness training for all staff and fraud detection focussed data analytic procedures.

2. Introduction

Key Events Leading up to the Investigation

- 2.1 In mid May 2014, the insurance for Citifleet vehicles was being renewed. The Council Group Chief Financial Officer instructed the Financial Controller to use the fixed asset register ("FAR") as the basis for insuring vehicles as part of this process.
- 2.2 [REDACTED] (Council Financial Analyst) commenced this process by comparing the Crombie Lockwood (Council's insurance broker) records, the FAR and the vehicles actually in use by Citifleet. This process identified a number of discrepancies.
- 2.3 [REDACTED] asked Mr Bachop (Citifleet Team Leader) to assist in identifying the reasons for the discrepancy. A number of meetings occurred on 15 May 2014 involving [REDACTED]. Initially a total of 129 vehicles still on the FAR were identified by Mr Bachop as being no longer owned by Council (or in the possession of Council).
- 2.4 [REDACTED] discussed his understanding of the disposal process with Mr Bachop who informed him that in addition to vehicles being disposed of via the auction process at Turners Auctions in Dunedin and to staff (the two ways in which [REDACTED] understood vehicles were disposed of), a significant number had been sold to members of the public, including multiple vehicles to an individual named [REDACTED].
- 2.5 On Friday 16 May 2014 [REDACTED] discussed the list of missing vehicles with staff at Turners Auctions in an effort to ascertain whether any had been sold by Turners Auctions but had been incorrectly recorded by Council. On Saturday 17 May 2014 [REDACTED] identified three vehicles that had been sold but details had not been updated on the FAR, bringing the list of missing vehicles down from the 129 initially identified to 126. [REDACTED]
[REDACTED]
[REDACTED]
- 2.6 We have been informed during interviews with staff that Mr Bachop visited his office over the weekend of 17/18 May 2014 and disposed of a significant amount of paper records from both his office and from the office space shared by a number of Citifleet staff.
- 2.7 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- 2.8 Mr Bachop died suddenly on 21 May 2014. His death has been notified to the coroner.
- 2.9 Deloitte was engaged on 23 May 2014 to assist with the investigation.

Scope

2.10 The scope of our investigation, as set out in our engagement letter dated 23 May 2014 was to:

- (a) Preserve in a forensically sound manner electronic and hard copy information that DCC controls, so that this may be analysed;
- (b) Investigate the activities of certain employees to determine the nature and extent of what has occurred; and
- (c) If required, provide assistance in referring the matter to other enforcement agencies.

Work Completed

2.11 The work completed to date includes:

(a) **Securing evidence.** This included securing:

- i. Hard copy records from Council;
 - Documents from Mr Bachop's office;
- ii. Forensic copies of electronic records from Council:
 - Mr Bachop's work computer; and
 - Mr Bachop's work email account;
- iii. Other evidence including:
 - NZTA Motochek records for all Citifleet vehicles under investigation;
 - Council policies and procedures for disposal of assets;
 - Copies of internal audit reviews conducted on Citifleet;
 - Records of expenditure on Council fuel cards (obtained from Cardlink, third party provider of fleet management services to Council); and
 - Records of maintenance expenditure for Citifleet vehicles.
- iv. Evidence available on the proceeds paid for vehicles sold by Mr Bachop. This includes sale and purchase agreements from motor vehicle dealers who purchased vehicles from Mr Bachop.

v. [REDACTED]

(b) Conducted interviews.

As part of our investigation we have conducted 54 interviews (including 41 current and former Council employees, two Councillors, three individuals who purchased multiple vehicles from Mr Bachop and two motor vehicle dealers who purchased vehicles from Mr Bachop).

The primary purpose of our interviews was to ascertain the factual details surrounding Mr Bachop's disposal of Council vehicles and to identify any other areas worthy of further investigation. We also asked questions in respect of Mr Bachop's behaviour and other observations of Mr Bachop.

The majority of interviews have been recorded by consent. The list of individuals we have interviewed is set out at **Appendix A**.

[REDACTED]

(c) Targeted email review of Mr Bachop's work email account.

To analyse the emails and electronic documents we have used specialised forensic software to conduct targeted keyword searches over the data received. We completed a targeted review of Mr Bachop's work email account in order to:

- Understand the level of Mr Bachop's knowledge of the fraud;
- Ascertain which bank accounts proceeds from the sale of vehicles were being paid into;
- [REDACTED]
- Obtain information in respect of the facts and circumstances surrounding the disposal of vehicles; and
- Ascertaining whether any other individuals (either Council staff or third parties) had any involvement in the fraud.

(d) Analysis of the fixed asset register ("FAR") for all Citifleet vehicles owned, purchased and disposed of since 01 July 2003.

We have conducted the following work:

- Obtained a listing of all Citifleet assets owned, purchased and disposed of since 01 July 2003 from Council;
- Identified all vehicles classified as disposed according to the FAR ("Disposed vehicles"). For each of the Disposed vehicles we have ascertained what sales proceeds were recorded by Council (if any) for the sale;
- Identified all vehicles classified as missing from the FAR (i.e. the FAR records the vehicle as still owned by Council but the vehicle is no longer in possession of Council) ("Missing vehicles"); and

- For each Disposed and Missing vehicle we have obtained New Zealand Transport Agency Motochek ("Motochek") details showing transfer of ownership details (both date of transfer of ownership and the individual to whom ownership was transferred to). We have also obtained retail and wholesale valuations for each vehicle, as at the date of its sale, from an independent third party vehicle valuation specialist - The RedBook. A letter setting out the valuation methodology, the limitations and the assumptions used by The RedBook is set out in **Appendix B**.

We note that Council has conducted a full physical verification exercise of all assets currently owned by Citifleet. This identified five further vehicles that appear to have been sold by Mr Bachop without Council's knowledge.

(e) Calculated the loss to Council as a result of the activities of Mr Bachop

Loss on vehicle disposals

We have calculated the loss to Council as the difference between the wholesale valuation at the time of the sale and the sales proceeds recorded by Council as having been received. The prescribed interest rate for debts and damages as set out in the Judicature Act 1908 has then been applied to calculate the loss to Council as at the date of this report.

Other losses

We have analysed the expenditure incurred on Council fuel cards and have assessed an amount that we consider to be personal expenditure. This has been included as a loss to Council.

(f) Conducted analysis of all bank statements obtained.

We have conducted a thorough review of Mr Bachop's [REDACTED]

[REDACTED] in order to:

- Analyse the flow of funds through this bank account;
- Identify assets (if any) purchased by him;
- Identify unknown bank accounts/parties that may have benefited from Council funds;
- [REDACTED]

Please refer to **Appendix C** for our report completed in July 2014 on the process undertaken, and our findings.

[REDACTED]

(g) Background searches

We conducted targeted background searches for Mr Bachop and searched the following databases in order to build up a profile of Mr Bachop, his relationships, assets and interests:

- New Zealand Companies Office (company ownership database);
- Land Information New Zealand / Terranet (property databases);
- Personal Property Security Register (registered security database);
- Insolvency Register (bankruptcy database);
- NZ Post Change of Address (disclosed change of address database);
- Classifieds (classified advertisement database e.g. Trade & Exchange);
- Various Social Media (e.g. Facebook); and
- General Google search.

Our findings from these searches are included in the chart in **Appendix D**. Please note the chart also includes other key pieces of information identified during the course of the investigation (i.e. through interviews, email review and banking documentation).

Limitations

- 2.12 We have not audited or otherwise verified the information provided and/or the representations made to us by Council or other parties interviewed.
- 2.13 As forensic investigators, we are not qualified to provide legal advice or a legal interpretation of the issues raised in this report (both from a recovery perspective or an employment perspective).
- 2.14 There is an inherent risk there are other material frauds at Council not identified in this investigation.
- 2.15 The views around broader risks, controls and risk culture are preliminary and are not a substitute for a formal Fraud Risk Assessment.
- 2.16 Our findings on the control failures are based only on the perceptions and experience of the interviewees that were selected to participate. They therefore may or may not reflect the views of all Council employees.

Acknowledgements

- 2.17 We are grateful for the support and assistance of many people at Council and its legal advisers.

3. Disposal of Council Vehicles

- 3.1 In this section we summarise our findings relating to the disposal of Council vehicles by Mr Bachop.

Employment History Mr Bachop

- 3.2 Mr Bachop had been employed by Council since the late 1980s. In December 2003 he was appointed as Team Leader of Citifleet, the division responsible for managing Council's vehicle fleet. Mr Bachop also had responsibility for managing Council's parking meters and car park facilities.
- 3.3 Mr Bachop's role required him to enter into agreements to purchase vehicles on behalf of Council and to sell those vehicles when they were no longer required. At all times it was expected that he would sell the vehicles on behalf of Council and the proceeds from their sale would be received by Council. Council policy sets out that *"every effort must be made to obtain the best return on the sale of any asset"*.
- 3.4 Council policy on delegations sets out that the position of Team Leader Citifleet had a financial delegation of *"\$10,000 for any sale or purchase transaction"*.

Actions of Mr Bachop

- 3.5 Mr Bachop caused loss to the Council in relation to the disposal of vehicles in two ways:
- Council owned vehicles were sold to third parties and Mr Bachop kept all the proceeds. In certain instances ownership was transferred from Council to Mr Bachop shortly before the sale of the vehicle; and
 - Council owned vehicles were sold to third parties and the proceeds received by Council were significantly less than the independently verified wholesale value of the vehicle at the time of the sale. There were two reasons for this:
 - We have identified certain instances where this is due to Mr Bachop keeping a significant proportion of the proceeds himself; and
 - We have identified instances where all proceeds were paid to Council but the sale was conducted at a significant discount to the wholesale value of the vehicle at the time of sale.

Disposal Methods

- 3.6 It appears that Mr Bachop was solely responsible for managing the disposal of Council vehicles from Citifleet. We understand that sale of vehicles took place in the following ways:
- Via Turners Auctions;

- To staff members; and
- To third parties (members of the public and motor vehicle dealers).

3.7 We have discussed each of these in turn below.

Sales via Turners

3.8 Certain vehicles were sent to Turners Auctions for sale. We have obtained a list of all vehicles sold in this manner from Turners Auctions. We have been informed that in each case a cheque made payable to Council was the method by which payment was made. We have confirmed that Council banked and accounted for these proceeds. Accordingly we are satisfied that the vehicles sold via Turners are not part of the fraud scheme.

Sales to staff members

- 3.9 It was known amongst certain Council staff that vehicles could be purchased from Citifleet. Staff would regularly contact Mr Bachop and ask him what vehicles were coming up for sale.
- 3.10 Payment from staff was made in a variety of ways – we have been informed that staff paid via cash (which was given to Mr Bachop) and via cheques made payable to DCC. We have been informed that on one occasion an invoice was created and issued to a staff member.

Sales to third parties

- 3.11 We have been informed that third parties would be contacted by Mr Bachop and offered vehicles for sale. These third parties included both private individuals who were known to Mr Bachop, motor vehicle dealers [REDACTED] Various payment methods were used, including payment by cash (cash would be given directly to Mr Bachop), payment made by cheque to Mr Bachop, direct credit to Mr Bachop's bank account and cheque to Council.
- 3.12 In a number of instances ownership was transferred from Council to Mr Bachop shortly before the vehicle was on sold to the third party. This was the case for the majority of sales to motor vehicle dealers and generally related to higher value vehicles.
- 3.13 We provide further analysis of these sales in the following sections.

Analysis of Citifleet Vehicle Fleet

- 3.14 We have obtained a listing from Council's Fixed Asset Register of all vehicles/assets owned by Citifleet as at 01 July 2003 that also sets out all recorded purchases and sales since that date ("the masterlist"). There are a total of 417 assets on this list. We then divided this population into four categories, being:

Classification	Number of vehicles/assets
<i>Vehicles/assets still owned by Council</i>	143
Vehicles recorded as disposed of by Council ("Disposed assets") where valuation and on selling details available	75
Vehicles recorded as still owned but no record can be found of the vehicle/asset ("Missing assets") where valuation and on selling details available	110
<i>Subtotal – vehicles disposed of for which ownership history and valuation data were obtained</i>	185
<i>Unable to identify details of asset/value of asset/asset incorrectly recorded*</i>	89
TOTAL	417

* See explanation in paragraph 3.15

- 3.15 There are a number of assets that are not vehicles (e.g. unregistered trailers, sign writing equipment) and a number of vehicles either with incorrect or missing registration information. There is a further population that are not able to be valued (including some cars, trucks and tractors). Accordingly it has not been possible to ascertain the chain of events or to ascribe a loss to Council with respect to these assets. The breakdown of these assets is set out in the table below:

Classification	Proceeds received by Council	No proceeds received by Council	Total
Car	9	11	20
Truck/Tractor	15	16	31
Scooter/Motorcycle	2	12	14
Trailer/Caravan	5	8	13
Other	-	11	11
TOTAL	31	58	89

Vehicles/assets still owned by Council

- 3.16 Council staff have undertaken an exercise to physically verify all vehicles/assets classified as still owned by Council.

Disposed & Missing vehicles/assets

- 3.17 For the 185 vehicles classified as either Disposed (75 vehicles) or Missing (110 vehicles) where we have been able to obtain valuations and/or details of on selling, we have contacted Turners Auctions and have conducted Motochek searches to identify how the vehicle was sold and who the vehicle was sold to.

Classification	Number of vehicles
Vehicles sold via Turners	19
Vehicles sold to staff members – proceeds recorded as received by Council	13
Vehicles sold to staff members – no proceeds recorded as received by Council	7
Vehicles sold to third parties – proceeds recorded as received by Council	40
Vehicles sold to third parties – no proceeds recorded as received by Council	106
TOTAL	185

Vehicles sold to staff members and elected members

- 3.18 We have identified a total of 24 current and former Council staff and elected members who have purchased 27 vehicles from Citifleet (we have been able to trace/value 20 of these purchases). We have set out these staff members in **Appendix E**, along with details of the vehicles purchased. These figures exclude the vehicles sold to [REDACTED]
[REDACTED]
[REDACTED]
- 3.19 Various payment methods were used by staff, including payment by cash (cash would be handed directly to Mr Bachop), payment by cheque made payable to Council and payment to Council via direct credit.
- 3.20 We have identified one instance where a cheque made payable to DCC appears to have been over written to change the payee name to B Bachop. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] Our review of proceeds for vehicle sales did not identify this amount so we requested more details from [REDACTED] [REDACTED] provided us with a scanned copy of the [REDACTED] that showed the name "B Bachop". It appears that this has been written over the original payee name of "DCC". We have not identified who wrote this name over the original payee.
- 3.21 We note that a deposit was made into Mr Bachop's [REDACTED] [REDACTED] for \$1,500 on 10 December 2011 (this is the deposit date as set out on the scanned copy of the cheque that we have been provided with).

Multiple purchases of vehicles

- 3.22 Our work has identified four clusters of family groups who have purchased multiple vehicles from Council. We have included a series of relationship charts in the appendices to this report that visualise the family members involved and the details in respect of the number of vehicles purchased. We have set out our findings for each of those clusters below.

The [REDACTED] cluster

- 3.23 A total of 19 vehicles had ownership transferred to [REDACTED]. This occurred in the period from 19 May 2004 to 17 May 2013. Sales were made to [REDACTED]. [REDACTED] Sales proceeds were received by Council for one of these sales. The total loss to Council (pre application of interest) is \$286,462. We have included a chart that visualises the purchases and sales of these vehicles and a table of the vehicles in question as **Appendix F**.
- 3.24 In one instance ownership was transferred from Council to [REDACTED] shortly before the vehicle was on sold to a staff member. This was the sale of a Ford Ranger (Registration [REDACTED]) to [REDACTED]. We were informed by [REDACTED] that [REDACTED] informed him that he had purchased the vehicle a number of months earlier from Council. [REDACTED] paid \$18,000 for the vehicle and the money was transferred directly to [REDACTED] from the finance company [REDACTED] used to pay for the vehicle. The wholesale valuation of this vehicle at the time of the sale was \$28,950. The Motochek records show the vehicle being transferred from Council to [REDACTED] only three days prior to the sale.
- 3.25 On a number of occasions, vehicles were on sold to motor vehicle dealers shortly after ownership had been transferred to [REDACTED]. We have addressed those sales in paragraph 3.40 under the heading "*Involvement of Motor Vehicle Dealers*".

The [REDACTED]

- 3.26 A total of 17 vehicles were sold to [REDACTED] with the majority being sold to [REDACTED].
- 3.27 These sales occurred in the period from 10 December 2008 to 17 February 2014. A number of the vehicles sold to [REDACTED] were on sold after being owned for a short period of time. Sales proceeds were received by Council for one of these sales. The total loss to Council as a result of the transfer of these vehicles (pre application of interest) is \$119,326. We have included a chart that visualises the purchases and sales of these vehicles and a table of the vehicles in question as **Appendix G**.
- 3.28 [REDACTED] was interviewed on 25 June 2014 and made the following comments:
- He met Mr Bachop approximately 15 – 18 years ago [REDACTED]
[REDACTED]
 - [REDACTED]
 - He paid via cash, cheque made payable to Mr Bachop and direct credit to Mr Bachop's [REDACTED] account.
 - Mr Bachop offered him numerous vehicles, some of which he did not purchase;
 - He believed that Mr Bachop had authority to sell the vehicles and assumed that all amounts he paid were being repatriated to Council; and

- He purchased some of the vehicles with the intention of tidying them up and then on selling them.

3.29 We requested any details that [REDACTED] could remember with respect to the purchase of these vehicles. His recollection is that he paid a total of \$48,000 to Mr Bachop in respect of 11 of the vehicles in question.

The [REDACTED] cluster

3.30 A total of 11 vehicles were sold to members of [REDACTED] with the majority being sold to [REDACTED]

3.31 These sales occurred in the period from 20 June 2009 to 26 December 2013. Sales proceeds were received by Council for two vehicles. The total loss to Council as a result of the transfer of these vehicles (pre application of interest) is \$81,478. We have included a chart that visualises the purchases and sales of these vehicles and a table of the vehicles in question as **Appendix H**.

3.32 [REDACTED] were interviewed on 26 June 2014 and made the following comments:

- [REDACTED] only met Mr Bachop twice – his main contact was [REDACTED] who informed him as and when vehicles were coming up for sale; and
- All payments were made in cash to [REDACTED] who allegedly passed the money on to Mr Bachop.

3.33 [REDACTED] recalled paying approximately \$6,000 each for two Daihatsu Terios vehicles. We note that sales proceeds of \$1,500 and \$2,000 respectively were recorded as being received by Council for these vehicles. This suggests that Mr Bachop or [REDACTED] kept a significant proportion of the sales proceeds for these vehicles.

The [REDACTED] cluster

3.34 A total of 14 vehicles were sold to members of [REDACTED] with the majority being sold to [REDACTED]

3.35 These vehicles were sold in the period 29 October 2003 to 24 November 2012. No sales proceeds were recorded as being received by Council for any vehicles. The total loss to Council as a result of the transfer of these vehicles (pre application of interest) is \$84,500. We have included a chart that visualises the purchases and sales of these vehicles and a table of the vehicles in question as **Appendix I**.

3.36 [REDACTED]

3.37 [REDACTED] was interviewed on 10 June 2014 and made the following comments:

- The first purchase was made when he mentioned to Mr Bachop that he was looking for a vehicle and Mr Bachop informed him that he had a Council vehicle for sale;

- [REDACTED] purchased a number of vehicles with the intention of tidying them up and selling them on for a profit;
- For a period of time Mr Bachop informed [REDACTED] that only Council staff could purchase vehicles. As this was the case Mr Bachop stated that he had purchased the vehicle and [REDACTED] therefore had to purchase the vehicle from him;
- [REDACTED] continually asked Mr Bachop if this was “kosher” and was told that it was; and
- He stated that the methods of payment used were via cheque made payable to DCC, via personal cheque to Mr Bachop and via cash handed to Mr Bachop.

3.38 We have requested the supporting documentation in respect of Council vehicles purchased by [REDACTED]. He has provided the following details. 1995 Hyundai Accent Registration [REDACTED] was paid for via cheque for \$1,800. 1996 Mazda Ute Registration [REDACTED] was paid via cheque for \$2,000. He cannot confirm the payee details for these cheques. Council has received no proceeds in respect of either of these vehicles.

Involvement of Motor Vehicle dealers

3.39 On a number of occasions, vehicles were on sold to motor vehicle dealers shortly after ownership had been transferred to Mr Bachop. We have received documentation in respect of these sales from the vehicle dealers in question and have the following observations.

[REDACTED]

3.40 Seven Council vehicles were sold to [REDACTED] in the period 22 August 2006 to 18 October 2012. Ownership for five of these vehicles was transferred from Council to Mr Bachop shortly before the sale to [REDACTED]. Ownership for two vehicles was transferred directly from Council to [REDACTED] (proceeds were received by Council for only one of these vehicles).

3.41 We asked [REDACTED] how it was able to provide the proceeds to Mr Bachop for the sale of a vehicle that was not owned by him (Council vehicle Mazda Bounty [REDACTED] - purchase price of \$14,000 which was used as part consideration for the purchase of a Ford Territory [REDACTED]. Ownership details shows transfer from Council [REDACTED] on 09 April 2008.

3.42 More generally we have asked what [REDACTED] processes were for ensuring that individuals selling vehicles have authority to do so.

3.43 We also asked [REDACTED] whether concerns were raised that ownership had transferred from Council to Mr Bachop shortly before the sale of five of the vehicles to [REDACTED] (documentation provided by [REDACTED] highlighted that they were aware of this fact at the time of the sale of at least three of these vehicles).

3.44 [REDACTED] (through its legal representative) has responded that its staff cannot recall the specifics of the transactions and that it is not uncommon for vehicles that have previously been the subject of a private sale to remain registered in the name of the former owner, or be transferred shortly before the sale to [REDACTED] when the vendor realises that the change in registration has not been effected as they prepare to sell the vehicle.

- 3.45 [REDACTED] also set out that neither its management nor its staff (past or present) had any knowledge of the apparently unlawful activity being undertaken by Mr Bachop and that at all times he appeared to be a trusted employee of Council.
- 3.46 The loss to Council on the disposal of these vehicles is \$132,327. We have set out a relationship chart as **Appendix J** that visualises the relationships of the parties involved in the disposal.
- 3.47 The details of the vehicles sold to [REDACTED] are set out in the table below.

A	B	C	D	E	F
Vehicle	Regn	Disposal date	Wholesale valuation excl. GST	Proceeds received by Council	Loss to Council (D-E)
[REDACTED]	[REDACTED]	15 Aug 2006	16,826	-	(16,826)
[REDACTED]	[REDACTED]	09 Apr 2008	11,783	-	(11,783)
[REDACTED]	[REDACTED]	18 May 2009	19,609	-	(19,609)
[REDACTED]	[REDACTED]	17 Aug 2010	14,913	-	(14,913)
[REDACTED]	[REDACTED]	28 Feb 2011	28,326	-	(28,326)
[REDACTED]	[REDACTED]	03 Nov 2011	14,043	10,434	(3,609)
[REDACTED]	[REDACTED]	11 Oct 2012	37,261	-	(37,261)
TOTAL					(132,327)

* ownership transferred from Council to Mr Bachop shortly before sale [REDACTED]

- 3.48 [REDACTED] have informed us that a total of \$117,000 was paid to Mr Bachop, either in the form of cash or in the form of a trade in value when the Council vehicle was used by Mr Bachop to purchase a vehicle for personal use.
- 3.49 We note that a payment of \$32,000 for the Mazda BT 50 [REDACTED] was scheduled to be made to an ASB account in the name of [REDACTED] on 18 October 2012. For some reason this payment was not processed and a cheque was written. We have identified a deposit of \$32,000 into Mr Bachop's [REDACTED] bank account on 19 October 2012.

3.50 [REDACTED]

- 3.51 Three Council vehicles were sold to [REDACTED] in the period 11 August 2008 to 17 October 2008. Ownership for each of these vehicles was transferred to Mr Bachop shortly before the sale to [REDACTED]

- 3.52 With respect to a [REDACTED] sold the vehicle to Council on 30 June 2008 for \$36,250. This vehicle was then purchased by [REDACTED] from Mr Bachop on 26 October 2008 for \$29,000. The proceeds from sale of this vehicle were used as part consideration for the purchase of a [REDACTED] by Mr Bachop.
- 3.53 We have asked [REDACTED] why a Council vehicle was used as a trade in for a personal vehicle purchased by Mr Bachop.
- 3.54 We have also asked [REDACTED] whether concerns were raised that ownership had transferred from Council to Mr Bachop shortly before the sale of the other two vehicles that were purchased.
- 3.55 We have also asked [REDACTED] if any enquiries were made as to why three late model vehicles were being sold by Mr Bachop in such a short space of time.
- 3.56 [REDACTED] (through its legal representative) has provided information on the bank accounts that payments were made to for two of these vehicles. We have passed these details to Council's legal advisers to ensure that attempts are made to obtain access to all relevant bank accounts.
- 3.57 The response also set out that [REDACTED] a number of years ago and subsequently this company was wound up. None of the employees of [REDACTED] are presently employed at [REDACTED]
- 3.58 [REDACTED] was unable to provide any further information on the logistics or processes in respect of the vehicle sales due to the fact that no employees from the 2008 period remain with the business.
- 3.59 The loss to Council on disposal of these vehicles is \$63,000. The details are set out in the table below.

A	B	C	D	E	F
Vehicle	Regn	Disposal date	Wholesale valuation excl. GST	Proceeds received by Council	Loss to Council (D-E)
[REDACTED]	[REDACTED]	30 Jun 2008	21,087	-	(21,087)
[REDACTED]	[REDACTED]				
[REDACTED]	[REDACTED]	13 Oct 2008	14,739	-	(14,739)
[REDACTED]	[REDACTED]				
[REDACTED]	[REDACTED]	20 Oct 2008	27,174	-	(27,174)
[REDACTED]	[REDACTED]				
TOTAL					(63,000)

* ownership transferred from Council to Mr Bachop shortly before [REDACTED]

- 3.60 A total of \$57,000 was paid to Mr Bachop, either in the form of cash or in the form of a trade in value, when the Council vehicle was used by Mr Bachop to purchase a vehicle for personal use.

- 3.61 Four Council vehicles were sold to [REDACTED] the period 13 October 2003 to 06 March 2006. In three instances the transfer was made directly from Council to [REDACTED] In

each case, Council received proceeds for the sale of the vehicle. In one instance transfer was made via Mr Bachop. In this case, no proceeds were received by Council.

3.62 We have requested all available paperwork from [REDACTED] in respect of these sales. They have been unable to provide any documentation in respect of these purchases.

3.63 The loss to Council on disposal of these vehicles is \$14,783. The details are set out in the table below.

A	B	C	D	E	F
Vehicle	Regn	Disposal date	Wholesale valuation excl. GST	Proceeds received by Council	Loss to Council (D-E)
[REDACTED]	[REDACTED]	13 Oct 2003	15,348	14,400	(948)
[REDACTED]	[REDACTED]	21 Nov 2003	14,478	11,556	(2,922)
[REDACTED]	[REDACTED]	20 Jan 2004	Unable to value	13,846	
[REDACTED]	[REDACTED]	06 Mar 2006	10,913	-	(10,913)
TOTAL					(14,783)

* ownership transferred from Council to Mr Bachop shortly before sale to [REDACTED]

Other purchasers

3.64 As at the date of the report we have not contacted any other purchasers of Council vehicles (as identified by Motochek records) as we are of the view that the time and costs associated with doing this outweigh the potential benefits of obtaining further details on how vehicles were purchased and the amount that vehicles were purchased for.

3.65 We can conduct this work if Council is of the view that it is required.

Calculation of Loss

3.66 We have provided a listing of all Disposed and Missing vehicles to an independent third party that specialises in the valuation of motor vehicles (The RedBook) and have obtained retail and wholesale values where possible (due to the nature of certain of the vehicles/assets, valuation data has not been able to be provided – we have summarised those vehicles in paragraph 3.15).

3.67 The loss on each vehicle has been calculated as the difference between the proceeds received by Council (which in the case of the Missing vehicles will be nil) and the wholesale value of the vehicle at the time ownership details were changed per Motochek records. This is the loss to Council at the time that ownership was passed on from Council. All amounts have been calculated exclusive of GST.

3.68 We have excluded all sales via Turners from this exercise as we are of the view that the actual price paid at an auction is a better indicator of the value than an estimated valuation.

3.69 To calculate a loss figure in today's terms, we have then applied the prescribed interest rates set as the maximum rate of interest that the High Court, the Court of Appeal, or the Supreme Court


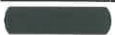


can, under [section 87\(1\) or \(2\)](#) of the Judicature Act 1908, include in the sum for which judgement is given in proceedings for the recovery of debts and damages as described in the Judicature Act 1908.

3.70 These interest rates (and the time periods for which they apply) are set out below

Date	Prescribed Rate
1 July 2011 onwards	5.0%
1 July 2008 - 30 June 2011	8.4%
1 August 2002 - 30 June 2008	7.5%
31 March 1980 - 31 July 2002	11.0%
21 October 1974 - 31 March 1980	7.5%
Up to 20 October 1974	5.0%

Source: Judicature (Prescribed Rate of Interest) Order 2008 and Judicature (Prescribed Rate of Interest) Order 2011

3.71 We have calculated the interest cost using “simple interest” in line with the Judicature Act. This means we have not compounded the interest or applied interest on interest. The breakdown of the loss is set out in the table below.

	Able to trace/value				Unable to trace/value *	Total	
	No proceeds received by Council		Proceeds received by Council				
	Number of vehicles	Estimated loss (\$)	Number of vehicles	Estimated loss (\$)	Number of vehicles	Number of vehicles	Estimated loss (\$)
Purchaser							
	17	284,152	1	2,310	1	19	286,462
Council staff	7	34,783	13	28,888	7	27	63,671
	9	68,478	2	13,000	-	11	81,478
	16	112,065	1	7,261	-	17	119,326
	13	84,500	-		1	14	84,500
Others	51	326,326	36	63,776	71	158	390,102
Sub total	113	910,304	53	115,235	80	274	1,025,539
Turners	-	-	19	-	9	28	
Sub-total	113		72		89	274	1,025,539
Nominal loss ascribed to 39 vehicles that were unable to be traced (refer 3.73)							115,000
Sub-total							1,140,539
Interest							335,600
Grand Total							1,476,139

3.72 For the 89 assets where we have been unable either to trace the ownership history or obtain valuations we have calculated a nominal loss below.

3.73 In 31 cases, Council has recorded proceeds as being received for these vehicles so we have excluded these from our loss considerations leaving 58 vehicles. We have then ascribed a nominal value based on the type and age of the asset to the remaining population as follows:

Classification	Number	Nominal loss ascribed (\$)
Car (nominal value \$5,000 per vehicle)	11	\$55,000
Truck/Tractor (nominal value \$3,000 per vehicle)	16	\$48,000
Scooter/Motorcycle (nominal value \$1,000 per vehicle)	12	\$12,000
Sub-total	39	\$115,000
Trailer/Caravan	8	\$0
Other vehicle related assets	11	\$0
Sub-total trailers/other assets deemed not at risk	19	\$0
TOTAL	58	\$115,000

3.74 The total loss calculated as at 31 July 2014 is \$1,476,139 including interest, but excluding investigation and legal costs.

Amounts Gained by Mr Bachop From Sale of Vehicles

3.75 It has been problematic identifying the sums that were paid for vehicles disposed of by Mr Bachop due to the following issues:

- It has not been possible to locate Council documents in support of the sale of many of the vehicles. Council staff have informed us that Mr Bachop removed a significant number of hard copy documents from his office and from his team's office during the weekend of 17/18 May. We do not know the nature of this documentation but it may relate to the sale of certain of the vehicles of interest.
- We have been informed that many of the payments were made in cash. If we were to accurately trace these amounts we would have to speak with every individual who has purchased a Council vehicle to ascertain the amount paid for the vehicle along with the method of payment.

3.76 Our analysis to date of the bank statements provided by Mr Bachop [REDACTED] [REDACTED] has identified a total of approximately \$349,000 of deposits that we believe are likely the proceeds for payments for vehicles fraudulently sold. We are working with the bank to obtain source documentation for these deposits to obtain further information. We have set out our analysis of these statements at **Appendix C**.

3.77 In addition to this, Mr Bachop has received \$72,000 in value for Council vehicles that have been used as trade ins for the purchase of personal vehicles.

4. Other Potentially Fraudulent Activities

- 4.1 In this section we summarise the key evidence we have obtained as it pertains to other potentially fraudulent activities that came to light during our investigation.

Inappropriate Use of Council Fuel Cards

- 4.2 Council uses the service of Cardlink who provide fuel cards for each of the vehicles in Citifleet. We have been informed that each vehicle has a fuel card associated with it, linked via the registration number of the vehicle. These cards are programmed such that only fuel and oil can be paid for.
- 4.3 During the course of our work we were informed of the existence of six additional cards at Council that were not linked to specific vehicles. There are no restrictions on what can be purchased with these cards (they are known as “all service cards” or “wildcards”). These cards have the designation DCC1, DCC2, DCC3, DCC4, DCC5 and DCC6. The purpose of these cards was to allow certain departments such as the Botanic Gardens and Taskforce Green to fill up garden maintenance equipment with fuel.
- 4.4 Of the six wildcards, three have been traced to Council departments (DCC2, DCC3 and DCC5). Council staff have analysed DC4 and noted that there is very little expenditure incurred on this card.
- 4.5 It was known that Mr Bachop had access to the remaining two cards (DCC1 and DCC6). Council staff were aware that he kept one in his wallet and one in his office (this card was recovered subsequent to his death). These cards have since been cancelled.
- 4.6 We obtained every transaction on cards DCC1 and DCC6 since inception from Cardlink and analysed the various categories of expenditure. The detail of this analysis is included at **Appendix K**.
- 4.7 We identified a significant amount of expenditure classified as “Personal/Miscellaneous”. In order to further investigate this, Council staff requested the receipts relating to a number of Personal/Miscellaneous items for expenditure incurred for a sample of one month (April 2014).
- 4.8 Receipts showed the purchase of multiple personal items including bottles of soft drinks, various packets of chips, milk, chocolate biscuits and loaves of bread.
- 4.9 We have assessed the personal elements of this expenditure as being the total of items classified by Cardlink as “Personal/Miscellaneous” and the total expenditure on petrol (Mr Bachop had use of a Council diesel vehicle so we have made an assumption that all petrol purchases were made for personal rather than Council benefit).
- 4.10 We note that all of this expenditure was signed off by his direct line manager.

- 4.11 We have not conducted further detailed analysis on these amounts at this stage, given the amount of effort that would be required to undertake a line by line review of every transaction.
- 4.12 Given the amount of expenditure under other categories incurred on these cards, we believe it is likely that further personal expenditure would be identified if a detailed review of every transaction was undertaken.

Purchase of a Vehicle for Personal Use

- 4.13 We have identified the purchase by Council of a Suzuki Trail Bike (Model DRZ 400) on 30 July 2008 by Council [REDACTED]. The motorbike was purchased at the same time as three identical Suzuki AN400 K73 scooters. The purchase price for the AN400s was \$8,444.44 each (plus \$480 per scooter for modifications and on road charges). The purchase price for the DRZ 400 was \$7,333.33. The total invoice was \$34,106.65 excluding GST.
- 4.14 We note that the [REDACTED] invoice was authorised and approved for payment by the [REDACTED] on 30 July 2008.
- 4.15 Using the registration numbers on the invoice provided [REDACTED] we have traced the three AN400 scooters through to Council's FAR.
- 4.16 We have been unable to find any record of the DRZ 400 on Council's FAR (there are no registration details on the invoice as it is a trail bike).
- 4.17 Council staff have provided us with fixed asset records that show the purchase of four Suzuki scooters during the year ended 30 June 2009. They include the three scooters that we have traced to the FAR plus a fourth with a registration number of [REDACTED]. The total cost of these four items equals the total cost of the invoice [REDACTED] (\$34,106.65). Each of the scooters is priced the same at \$8,526.66.
- 4.18 The Motochek records for [REDACTED] identify it as a 2009 Suzuki GSX 1400k7 Motorcycle that has never been owned by Council.
- 4.19 [REDACTED] informed us that Mr Bachop paid for a service of the DRZ400 out of his own funds on 31 May 2009.
- 4.20 It appears that Mr Bachop used Council funds to purchase a vehicle for personal use and then used a fictitious registration number and altered vehicle values to disguise this purchase when he provided documentation to update Council's FAR.

Filling of Pay Stations With Cash

- 4.21 We were contacted by Council's [REDACTED] subsequent to our interview of [REDACTED]. [REDACTED] had concerns that [REDACTED] wanted to disclose regarding a process that was in place for re-filling pay stations at the Moray Place car park.
- 4.22 [REDACTED] stated that [REDACTED] was asked on two occasions to sign cash cheques (on 8 December 2011 for \$4,000 and one on 27 December 2011 for \$5,600). All the requests came from [REDACTED] and were approved by Mr Bachop. [REDACTED] enquired as to

the reason for the cash cheques and was told that the pay stations could not replenish themselves automatically and that cash had to be fed in to the machines to ensure they continued to operate.

- 4.23 [REDACTED] stated that [REDACTED] was not comfortable with this request and asked for some form of audit print out from the pay stations to verify that this was the case. [REDACTED] was told that this was not possible.
- 4.24 [REDACTED] requested that a print out from the bank detailing the cash withdrawal be obtained and that this was signed off by the Council employee who was making the withdrawal.
- 4.25 [REDACTED] stated that shortly after [REDACTED] challenged this process, the requests for cash cheques stopped (the first request was made on 09 December 2010; the last request was made on 23 December 2011).
- 4.26 [REDACTED] unclear as to the reason why the requests stopped but found it unusual that it stopped shortly after [REDACTED] challenge (previous cheques had been signed by other cheque signatories in the finance department). [REDACTED] was informed that new machines had been installed and that they were self-replenishing.
- 4.27 As a result of being asked to sign the cash cheques, [REDACTED] instigated an internal audit of cash handling procedures at the Lower Moray Place car park. This work was completed by Crowe Horwath. A report entitled "*Internal Audit – Lower Moray Place Car Park*" dated January 2012 was completed. This identified a total of 8 issues, including 3 "High" risk matters, 2 of which related to the transport and complete and accurate deposit of cash to the automated parking machines.
- 4.28 We understand that no follow up was required to these issues as shortly after the report was completed, new self replenishing pay stations were installed in the Lower Moray Place car park.
- 4.29 Subsequent to the commencement of this investigation [REDACTED] has identified a total of \$104,800 in cash withdrawals where no evidence can be provided that the cash withdrawn was used for the purpose of re filling the pay stations.
- 4.30 We spoke with [REDACTED] from September 2007 to May 2013 via telephone on 21 July 2014. [REDACTED] confirmed the following:
- The pay stations in the Moray Place Car Park were an old type that did not self replenish. This meant that cash had to be put into the machines in order for them to operate;
 - Each request for a cash cheque was approved by Mr Bachop;
 - No source documentation from the pay stations was provided to Council's Finance staff at the time the requests were made;
 - Mr Bachop was the only staff member who visited the bank to cash cheques;
 - The process used to involve a third party security specialist who managed the replenishment. This process was changed by Mr Bachop;

- Mr Bachop would on occasion not provide [REDACTED] the full amount of cash that had been requested; and
- [REDACTED] could not recall exactly how long the replenishment of machines via cash cheques had been in place, but thought it was the process in place when he started work at Council.

4.31 It is currently not possible to ascertain whether Mr Bachop cashed cheques and kept a portion of the cash for himself.

Inappropriate Use of Council Vehicles

4.32 We have been informed by Council staff that [REDACTED] has had the use of Council vehicles on the following occasions:

- Parking enforcement staff issued infringement notices in 2007 to [REDACTED] driving a Council owned Ford Focus. Council Staff disclosed this to the Group Manager Regulatory Services at the time but did not know how this matter was followed up;
- Staff regularly observed [REDACTED] in a number of Council vehicles which were being used during Council work hours; and
- [REDACTED] had use of a Council Ford Focus for a period of six months from November 2013 when it was retired from the Council fleet until 25 May 2014 when it was sold at Turners Auctions. A number of costs were incurred on this vehicle including \$3,020 of repairs and registration costs and \$108.01 on fuel.

4.33 It was general knowledge that Mr Bachop used his Council vehicle as a personal vehicle for everyday use. [REDACTED]

4.34 We were also informed that Mr Bachop arrived at a mountain biking event in a Council vehicle. [REDACTED]
[REDACTED] told Mr Bachop the use of a Council vehicle was inappropriate. The matter was taken no further.

Replacement of Car Parts

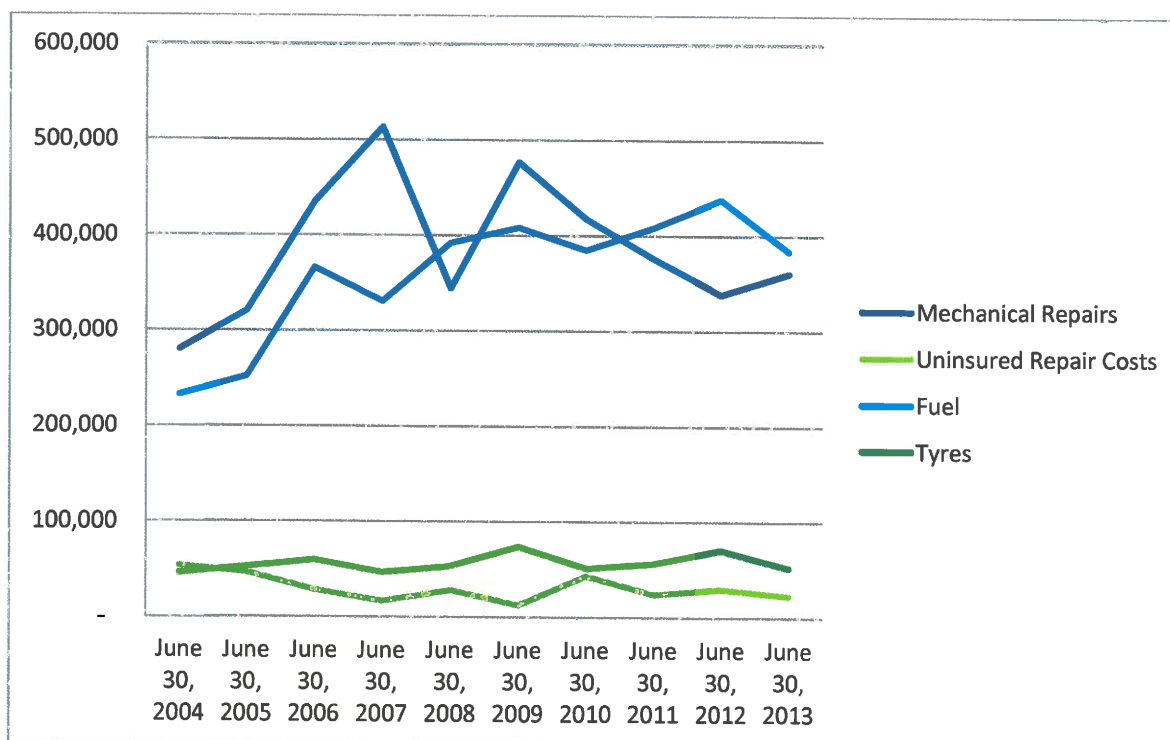
4.35 We were informed by a former staff member that he observed Mr Bachop replace worn parts in his personal vehicle with less worn parts from a Council vehicle on one occasion (including door handles, footrest mats and other upholstery items). This occurred prior to Mr Bachop's promotion to Team Leader Citifleet in December 2003. The former staff member informed us that the Team Leader at the time also observed Mr Bachop do this and informed him that this was not acceptable practice.

5. Other Matters of Interest

Vehicle Repair & Maintenance Contracts

- 5.1 We have been informed that concerns were raised in 2006 regarding the level of expenditure on repairs and maintenance with respect to Citifleet. These concerns centred on the fact that significant sums were being spent with one particular supplier [REDACTED]. There was a feeling amongst Council staff that the best value for the repairs and maintenance service was not being obtained and that the increase in annual expenditure year on year was getting out of hand.
- 5.2 This resulted in a review of Citifleet being conducted by Cardlink Systems Limited, an organisation that specialises in fleet management activities. A January 2007 report entitled *"Review of Vehicle Fleet Management"* was completed by Cardlink and contained a number of their recommendations. One of the recommendations that was implemented was for all repairs and maintenance to be approved by Cardlink prior to any work being conducted. A second recommendation was that vehicles should be repaired by the make and model specialists (rather than all repairs going through one supplier [REDACTED]).
- 5.3 We have performed a high level analysis of the repairs and maintenance expenditure over the last ten years. See Figure 1 below:

Figure 1 – Annual expenditure on repairs and maintenance (Source: Council management accounts)



- 5.4 This shows that the changes made in 2007 have assisted in reducing expenditure on repairs and maintenance.
- 5.5 We have been made aware of a number of rumours circulating in respect of whether dealings with repairs and maintenance suppliers are being conducted at arm's length. These are extremely challenging rumours to either confirm or deny on a cost effective basis.
- 5.6 Our recommendation would be to conduct a full tender process for all repairs and maintenance services immediately and on a cyclical basis in the future. It is encouraging to note that Council has a process underway to improve its tendering procedures on an organisation wide basis. This includes:
- A central tenders register for all contracts;
 - A standardised contract form;
 - Sign off for contract roll overs; and
 - A review of all procurement currently not done via a tender process.

Other

Mr Bachop's Council credit card

- 5.7 We have obtained the expenditure on Mr Bachop's credit card for the period 10 September 2002 to 21 May 2014. Our high level analysis of this expenditure has not identified any material items that are obviously of a personal nature. We have not conducted a detailed line by line analysis of these items. The breakdown of expenditure is attached at **Appendix L**.

Mr Bachop's personnel file

- 5.8 As part of our work, we asked Council's Organisational Development and Performance Manager to review Mr Bachop's employee file. We also spoke with [REDACTED] about any issues with Mr Bachop that were brought to his attention
- 5.9 Mr Bachop's employee file did not contain any relevant information beyond documents related to commencing employment and remuneration review letters other than a sign off by Mr Bachop dated 22 March 2005 that he would only use his Council vehicle for journeys to and from home. [REDACTED] considered Mr Bachop to be an employee who was performing satisfactorily with no issues that required disciplinary action.
- 5.10 [REDACTED] informed us that there were very few personnel related issues with Mr Bachop during his employment at Council. There were no formal matters recorded on Mr Bachop's employee file.

Use of Council vehicles by staff

- 5.11 During our investigation it has become apparent that a large number of staff have use of Council vehicles where the reason for this is not clear [REDACTED]

- 5.12 We have not completed any further work on this but understand that Council are currently conducting an organisation wide review on vehicle use with the aim of ensuring that Council vehicles are provided to only those staff that need them for business purposes.

Investigation of Previous Allegations

- 5.13 In October 2011 a Councillor requested information to assist him with regards to understanding the DCC's vehicle disposal policy and practices and information relating to the sale of Mazda Bounty vehicles, especially one that Mr Bachop had allegedly sold to himself.
- 5.14 [REDACTED] requested information directly from Mr Bachop to assist with satisfying this request. The information obtained from Mr Bachop included the DCC asset disposal policy, information on the businesses used for disposing of DCC vehicles, confirmation as to the valuation process with regards to the sale of vehicles to employees and a schedule of vehicle sales. The vehicles sold schedule did include four Mazda Bounty vehicles. None of these were showing as having been sold to Mr Bachop. In addition, three of the vehicles were not registration numbers that were owned by the DCC and the DCC did not receive any of the proceeds for the four vehicles that had been included on the schedule. We can conclude from this that the information provided back to the [REDACTED] was fabricated. We understand the [REDACTED] provided the information received to the Councillor and no further information was requested.
- 5.15 In terms of the DCC's process there was no independent verification of the information and the vehicle disposal information was not reconciled to the fixed asset register. We recommend that all allegations of substance are subject to investigation by someone independent of the area of interest.

6. Next Steps

Investigation

6.1 We recommend that Council:

- (a) Continue liaising with the Police in respect of its investigation;
- (b) Continue working with its lawyers in addressing employment and recovery issues. [REDACTED]
[REDACTED]
- (c) Continue liaising with its insurer and make a claim under the relevant policy;
- (d) Address the specific control weaknesses identified in our report as a matter of urgency. We note that a number of recommendations we have made are already in the process of being implemented; and
- (e) Complete a number of wider counter fraud steps including an organisation wide Counter Fraud Gap Analysis and Fraud Risk Assessment, as well as fraud awareness training for all staff and fraud detection focussed data analytic procedures. These recommendations are set out in more detail below.

Potential next steps - Control failings

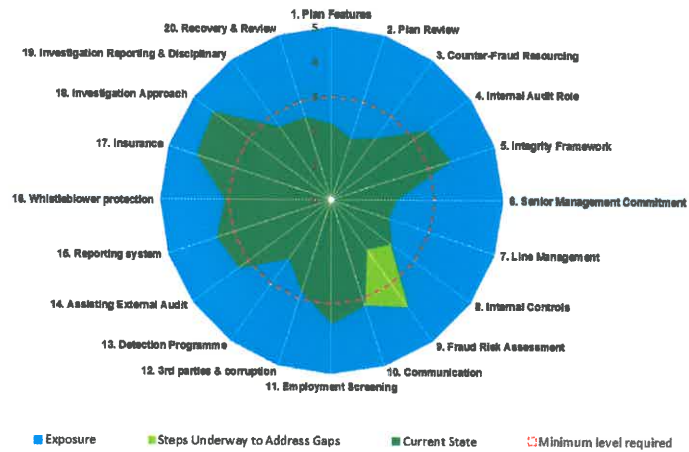
6.2 As noted earlier, we have included our detailed findings on the control failings in a separate report. Our recommendations provide the potential way for Council to 'move forward' beyond our initial recommendations earlier in the report. They form part of a broader road map that Council may wish to consider.

6.3 After assessing our key findings in this report Council may wish to consider a number of potential next steps to address the problems that enabled this fraud to occur, and to prevent future internal fraud.

6.4 Other organisations of Council's size and profile have completed the following recommendations with good results. These steps are as follows:

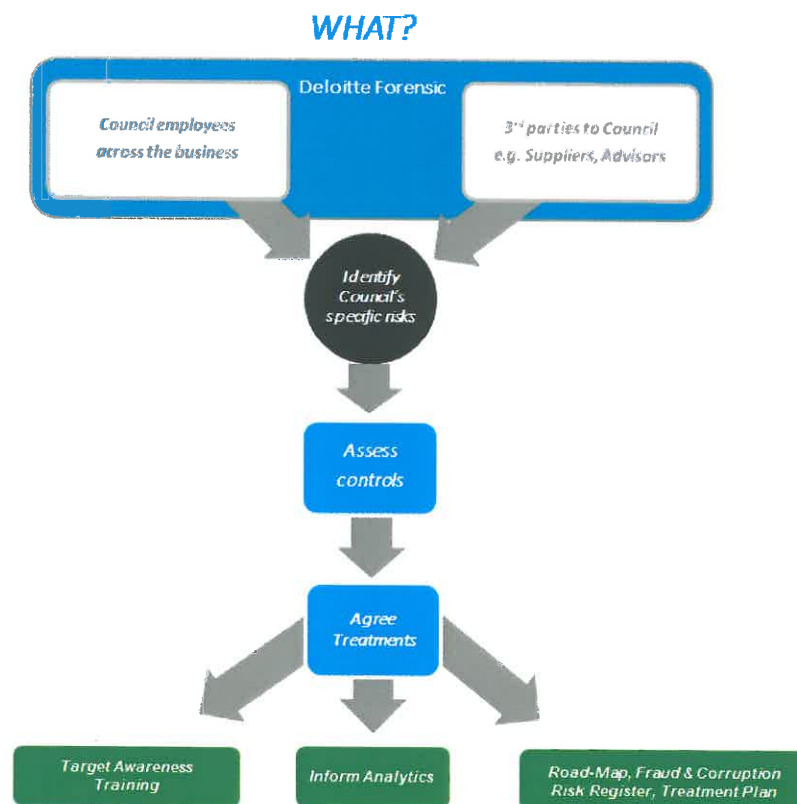
a. Counter-fraud Gap Analysis

- During the limited time of our investigation and review, we observed a number of significant gaps in the way Council currently prevents and detects fraud. For example how Council:
 - monitors its fixed asset disposal process;
 - scans data looking for fraud;
 - makes it easy for employees to report concerns; and
 - approaches fraud education with managers and staff;
- To obtain a more holistic view of how well Council approaches this risk, an assessment of Council's 'current state' against best practice should be run to identify what other gaps exist and what practical remedies should be deployed to close the gaps.
- An example output from a benchmarking workshop:



b. Fraud Risk Assessment

- This fraud (and our review) has determined that weak controls are in place to protect against a very straightforward fraud.
- A fraud risk assessment would identify Council's numerous fraud risks, assess the current controls and formulate agreed treatments to address those risks. This would also require the business to adopt an ongoing fraud risk assessment capability and culture – to cater for the dynamic nature of Council's business.



c. Fraud Detection analytics

- A modest amount of data analytics can assist in the detection of fraud.
- We recommend that to improve detection efforts Council completes periodic data analytics to:
 - Draw relationships between suppliers, business partners and employees; and
 - Highlight concerns across payment data.

d. Fraud Awareness Training for managers and staff

- Training to improve the fraud awareness levels across Council would reduce the risk of a repeat issue where a range of issues (including questionable practices being employed by Mr Bachop and a range of fraud related red flags) were being presented and not escalated.

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Dunedin City Council
Project Lewis – Investigation Report
August 2014

[illegible]

Interviewee	Position / Relationship	Date	Attending
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Appendix B Vehicle Valuation Methodology



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RedBook Background

RedBook is a leading provider of vehicle identification and pricing information in Australia, New Zealand, Malaysia, Thailand, China, Hong Kong, Singapore and the UAE and we have historical databases for India and KSA. Automotive Data Services Pty Ltd is a subsidiary of Carsales.com.Limited. Carsales.com.Limited an Australian listed public company based in Melbourne.

Industries which use RedBook include:

- OEM's from the automotive industry,
- Other OEM's,
- Financiers & Banks
- Insurance industry
- Government departments

The company that operates the RedBook stable of data systems and publications is Automotive Data Services Pty Ltd. It has been researching the automotive market for over sixty years and its success has been based on pedantic and independent research, maintaining credibility and authoritative information.

RedBook NZ has been researching car and motorcycle information since the early 1990's. We have built a reputation for being an authority on NZ vehicles due to our detailed and extensive database combined with our pursuit of accuracy. Currently the RedBook NZ database contains specifications and second hand values for over 70,000 cars and motorcycles. Our customers include the majority of New Zealand's insurance companies, plus vehicle finance and fleet companies.

In the last 20 years we have continually researched and updated our second hand pricing. Because of the constant re-evaluation we have created an extensive archive which we utilise for historical values.

Deloitte's Valuations "Methodology"

The methodology we used for finding price estimates was to firstly establish as many of the vehicle's details as possible from the Deloitte spreadsheet and the vehicles registration information. Excluding the trailers, caravans, tractors and trucks we matched the cars and motorcycles with a unique RedBook code. Using the Redbook code we were then able to extract the pricing history for that vehicle from our archive. When deciding on an approximate retail and wholesale price we adjusted the extracted values to take into account the age of the vehicle when it was sold and odometer readings when they were available.

There are limits to this methodology: If important features about the vehicle are unavailable then we had to average a range of vehicle values or exclude the vehicle. An example from the spreadsheet is a 1993 Toyota Hilux Doublecab [REDACTED]. We are not aware of the condition of all the vehicles provided by Deloitte's at the time of sale and the odometer reading for this particular Hilux was not available either. Important features missing are the engine type (petrol or diesel, CC rating) the variant (SR5) and whether the vehicle's drive train was a 4x4 or a 4x2. All of these missing features affect the vehicles valuation. Registration information established the engine type, and cc rating, which narrowed down our archived pricing from 20 to 6 1993 Toyota Hilux RedBook codes. We then averaged the 6 Hilux historical values to create the approximate valuation for [REDACTED]

Appendices C-J are withheld pursuant to s7(2)(a) of LGOIMA to protect the privacy of natural persons.

Appendix K All Service Fuel Card Expenditure

Overall Summary

product (group)	Source		Grand Total
	DCC1	DCC6	
Car Wash	70	2,463	2,533
Diesel	4,111	38,516	42,626
Fees	891	1,318	2,209
Insurance	225	22,669	22,894
LPG	53	464	517
Lubricant	50	344	394
Personal/Miscellaneous	1,431	42,263	43,694
Petrol	8,148	51,066	59,214
Repairs	6,688	134,784	141,472
Service	1,953	98,635	100,588
Tyres	379	11,681	12,060
WOF		17	17
Grand Total	23,998	404,220	428,218

Total
Personal/Misc
ellaneous and
Petrol costs
\$102,908

Source: Line by line detail of all transactions for DCC1 and DCC6 since inception provided by FleetSmart.

Appendix L B Bachop Council Credit Card Expenditure

Overview



Public Release Version

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