

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	29 NOVEMBER 2018
TITLE	FRAUD AND CORRUPTION: EXPRESS MOTORS
PURPOSE OF REPORT	TO SUMMARISE HOW THE FRAUD OCCURRED AND THE STEPS TAKEN IN RESPONSE
AUTHOR	DEWI MORGAN, SENIOR MANAGER REVENUES AND RISK
ACTION	TO CONSIDER THE CONTENTS AND QUESTION COUNCIL OFFICERS ABOUT THE ARRANGMENTS WITHIN THE PUBLIC TRANSPORT SERVICE, AND THE SUBSEQUENT STEPS TAKEN

1. INTRODUCTION

- 1.1 On 2 October 2018, four defendants were found guilty at Caernarfon Crown Court of charges of fraud involving claims for subsidies by Express Motors for running the Concessionary Fares scheme in Gwynedd. A fifth defendant had pleaded guilty at an earlier hearing.
- 1.2 On 31 October 2018, all five defendants were sentenced at Mold Crown Court to prison for periods of between 12 months and 7½ years.
- 1.3 The defendants were the owner of Express Motors, his three sons and a driver for the company.
- 1.4 Because the matter was subject to Court proceedings, the Audit and Governance Committee has not been able to discuss the matter in open committee until now.

2. INTERNAL AUDIT INVESTIGATION

Background

- 2.1 This matter was referred to Internal Audit by the Regulatory Department in 2014, who stated that they had concerns and had received complaints from customers that bus travel cards were being swiped more than once (when stepping on to the bus and as they were leaving) for journeys made with Express Motors. Internal Audit was asked to investigate this claim, as this was potentially fraudulent activity from the bus company in order to inflate concessionary fares figures and fraudulently inflate their monthly claims from the Authority.

Claims Procedure

- 2.2 The Concessionary fares scheme is funded by the Welsh Government and administered by the 22 Local Authorities; it was launched in Wales on 1st April 2002. The scheme entitles women and men aged 60 and over and people with certain disabilities to obtain a bus travel card that enables them to travel free from charge in Gwynedd and anywhere in Wales. These travel cards can be used multiple times and they have no limits on them, but passengers do have to show the card every time they travel.
- 2.3 The scheme then allows bus operators to reclaim money from the public purse, on a monthly basis, for every journey made with a valid travel card. This payment is calculated using 3 elements:
 - The number of journeys made within the month on routes operated by that company using a valid concessionary travel card
 - The average single fare of a journey by that operator (this figure is based on the average cost in September 2009)

- a multiplier supplied by Welsh Government (which is consistent to every local authority and bus operator in Wales – this varies every year, based on the overall budget that is available)

2.4 The monthly payment to every company, therefore, is calculated as follows:

Payment = Number of concessionary journeys x Sept 09 average single fare x WG multiplier

2.5 Every month it is the companies' responsibilities to let the Council know how many times the concessionary travel cards have been used on routes within Gwynedd with the Council paying the companies based on the data received each month. The Council re-claims the money that has been paid to the companies from the Welsh Government with quarterly claims.

Wayfarer System

2.6 The Wayfarer system (by Parkeon) is a system that records concessionary fare data for the Bus operators.

2.7 Internal Audit were informed by the Regulatory Department that most bus operators upload their data from the system to Flintshire County Council, who then produce the required reports. In early 2014, only three operators who claimed from Gwynedd Council had their own "back office" function that allowed them to generate their own reports and send them direct to the Gwynedd Council's Regulatory Department to support their claim. One of these companies was Express Motors.

2.8 Each month, Express Motors were required to print a report from the Wayfarer System showing exactly the number of concessionary journeys undertaken in the previous month and present this report as supporting documentation with their Concessionary fare payment claim ("C5 form") to the Regulatory Department to be processed.

The amount of passengers swipes on routes

2.9 Discussions were held with officers of Flintshire County Council to ascertain whether they, as a 'back office' function themselves were able to supply information about card usage for all other bus operators. This was not possible and Internal Audit were first referred to Parkeon which is the company who supplied the public transport tickets machines (the Wayfarer system). Parkeon could not provide the information either and the auditor was then referred to ACT, the company responsible for the bus travel cards and who held the data on card usage. All data/information on card usage is held on ACT servers as per their agreement/ contract with the Welsh Government.

2.10 ACT was contacted for details about all cards that were used more than 3 times on any day on routes serviced by Express Motors in Gwynedd between September 2013 and February 2014.

2.11 ACT provided the information in the form of an Excel spreadsheet listing all card numbers, and showed the number of transaction per service per day per card (where the number of transactions was 3 or more). One return journey would normally include 2 swipes. During the 6 months in our sample, there were 65,677 smartcard transactions on routes serviced by Express Motors that were the third or more transaction by the same card on the same route on the same date.

2.12 However, there are clear flaws in an assumption that any transaction beyond the second on the same route on the same day is fraudulent:

- It is not unreasonable to expect that some people may make the same return journey more than once in a day, particularly on local "shuttle" services.
- The data obtained was for routes serviced by Express Motors. Some of these routes were shared with other operators at the time.

Four frequently used cards

- 2.13 It was decided at this stage of the investigation that more detailed information would be requested from ACT of the exact date and times of the usage of 4 of the most frequently used cards for the period September 2013 to May 2014. This showed a recurring pattern where these cards had been used at the same time every day on numerous occasions. For example, on 4 November 2013 these four cards were used concurrently throughout the day, giving 236 transactions. The identity of all 4 card holders were gleaned from the Wayfarer system and one of these was seen to be Mr Eric Wyn Jones, owner of Express Motors.
- 2.14 When analysing this data, there was suspicion of the validity of the monthly concessionary fare figures provided by Express Motors which potentially has resulted in inflation of the concessionary figures over a number of years. More robust data was available for the period since the Wayfarer system was introduced at Express Motors, in 2011.
- 2.15 As a result of the initial work done by Internal Audit, the matter was referred to North Wales Police, who conducted further enquiries.
- 2.16 This detailed work, where the investigators worked closely with the Crown Prosecution Service, culminated in the guilty verdicts and prison sentences for five individuals.

3. FURTHER INTERNAL CONTROLS

- 3.1 As noted above, the systems used by bus companies throughout Wales was purchased by the Welsh Government; the contracts/agreements were between the companies and WG – not the councils. At the time of the initial investigation by Internal Audit, no exception reports were provided that would have raised concerns about excessive swiping of travel cards.
- 3.2 Further, it has been seen subsequently that travel cards could still be used despite having been cancelled on the system by Council officers.
- 3.3 However, following this investigation local authorities do now receive exception reports of cards that have been used several times in one day, to allow further investigation where necessary.
- 3.4 It should be noted also that the Welsh Government have recently placed a requirement on all local authorities who wish to continue to be part of the concessionary fares scheme to sign a new contract. The new contract specifically states that local authorities will be held liable for any fraud discovered, which is a significant risk for Councils.
- 3.5 It should also be noted that the Welsh Government have also procured a new system that replaces the Parkeon system, but ACT will continue to supply travel cards, and provide card transaction data.
- 3.6 Officers from the Environment Department will be present at the Audit and Governance Committee meeting to answer any questions.

4. RECOMMENDATION

- 4.1 The Audit and Governance Committee is asked to accept this report as a background of the fraud perpetrated at Express Motors against the Council, and what the Council has done in response.
- 4.2 The Committee is also asked to note the risk that the new contract with the Welsh Government imposes on the Council, and to seek information about the steps that can be taken to mitigate this risk.