

Chapter one: Aggravated theft at Yorke Peninsula Council

The Yorke Peninsula Council (Council) is one of 68 councils in South Australia. It is a regional council covering a geographical area of 5,900 km², servicing approximately 11,278 people.

In the 2015/16 financial year the Council was served by 12 elected members and 146 staff; approximately 60 in administration/management and 90 in works-related roles. Total expenditure for the year was \$29.82 million, and income was \$27.55 million.

The offending

DUTIES AT THE COUNCIL

Karen Maria Schulz (Council public officer) was at the time of her offending the Manager of Financial Services at the Council and had been employed at the Council for over ten years.

In 2004 the Council public officer commenced at the Council as an Accounting Officer.

In 2007 she became an Accounts Payable Officer and was responsible for the preparation and payment of accounts for goods and services received.

In 2011 she became a Management Accountant responsible for control and monitoring of the Council's financial performance and ensuring statutory compliant record keeping.

In 2013 she was promoted to the senior leadership role of Manager Financial Services, reporting directly to the Director of Corporate and Community Services and responsible for the effective and efficient financial management of the Council's operations. She led the Financial Services team and provided expert advice to the Council's Corporate Management team.

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THE CONDUCT

The Council public officer's corrupt conduct spanned more than four years (July 2011 to November 2015) and occurred in two distinct periods using different methods.

From July 2011 to April 2013 she modified Council electronic payment records by editing the electronic payment system's masterfile to substitute a supplier's bank details with her own. She would do this after a batch of payments had been approved by herself and the Director of Corporate and Community Services. Once payment had been made to her account she would restore the original supplier bank details to the masterfile.

She would then make a copy of the original invoice and repeat the approval process between her and the Director, so the supplier would be paid. She would include these duplicate invoices within a large batch that needed processing, so that it would go unnoticed.

The Council's accounting software included a control that would generate a warning when invoices to the same supplier with repeat invoice numbers were processed. However, the Council public officer had authority to override the duplicate invoice warning so corrupt payments could proceed without raising alarm.

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Her conduct required the unwitting involvement of other employees. She would create reasons to have other employees divulge their system log-in details to her. She also capitalised on the practice of staff logging onto a computer and leaving it unlocked while physically leaving the room.

The Council public officer admitted that she would wait until she was alone in the room before using a colleague's computer to manipulate accounts payable details, all the time ensuring the computer was logged on under another staff member's credentials.

In February 2013 internal audit staff identified a risk relating to the number of staff who had access to masterfiles and the ability to change those files. The audit team recommended changes to mitigate this risk and the Council public officer was assigned responsibility for implementing new controls.

She consequently ceased processing corrupt transactions between 2 February 2013 and 11 April 2013.

In April 2013 the Council changed banks. According to the Council public officer's subsequent admission, she discovered how to exploit a vulnerability in how the new bank interacted with the Council's accounting software.

This vulnerability related to the ability to edit bank text information before it was uploaded to the bank. Once payment was made she would then revert the bank text file to its original form to cover her tracks.

This new approach was used for a further 20 months, from 12 April 2013 to 12 November 2015, before it was detected.

HOW THE OFFENDING WAS UNCOVERED

On 7 December 2015 while the Council public officer was on leave, an Accounts Payable Officer was contacted by a supplier with an unpaid invoice.

Council records indicated the invoice had been paid so staff arranged for an electronic funds transfer (EFT) payment report to be run and discovered the invoice amount had been paid into an account operated by the Council public officer.

Council staff subsequently examined six months of transactions, discovering further suspicious transactions where money appeared to have been transferred into the account of the Council public officer.

THE ICAC INVESTIGATION

On 10 December 2015 the Office for Public Integrity received a report from the Council.

The report was assessed as raising a potential issue of corruption in public administration and the Commissioner determined to investigate the matter.

On 15 December 2015 an ICAC investigator attended the Council's offices and was provided full access to relevant documents. The Council public officer's banking records were obtained and they confirmed the receipt of Council money.

Her employment was terminated on 5 January 2016. On 1 February 2016 she wrote to the Council admitting her wrongful conduct and explaining how she had obtained the money.

On 9 February 2016 the Council public officer was arrested by an ICAC investigator. During her subsequent interview she admitted to the offending and confirmed the accuracy of the letter she had written to the Council. During her interview she also provided further insight into her conduct.

She recalled the catalyst for her conduct was outstanding bills. She alluded to credit card debts related to her children's schooling, her mother's funeral and some holidays.

The Council public officer's expressed initial intention was to borrow Council money and she claimed that she did repay the first (\$1,338.25) and second (\$415.60) stolen amounts via electronic transfers. She also claimed to have made other cash deposits into the Council's account, though was unsure of exactly how much was returned. Subsequent ICAC forensic accountant analysis confirmed the offender had paid back three amounts of money but was unable to verify some of the other alleged cash repayments.

As the interview continued it emerged that the proceeds of her offending were increasingly being used to fund her lifestyle, with funds being spent on cruises, interstate and overseas holidays and private school fees. She also stated that some of the funds were used to pay for ongoing medical treatment for members of her family.

When asked what would have happened if her offending had not been uncovered and addressed she replied, ‘potentially I would have continued’.

THE COURT PROCEEDINGS

On 27 October 2016 the Council public officer pleaded guilty to 20 counts of Aggravated Theft, being charges that were representative of all of her conduct. She had no previous criminal history.

The prosecution alleged and the Council public officer admitted that she had taken \$218,877.35 from the Council over a period of four years and four months through 63 unauthorised transactions. The prosecution submitted this offending was aggravated because the Council public officer was in a position of trust. The maximum period of imprisonment imposed for a single offence of Aggravated Theft is 15 years imprisonment.

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The offender was sentenced in the Magistrates Court on 2 November 2016. Though her defence argued for the suspension of any custodial sentence, the Magistrate said suspension was ‘totally inappropriate’, citing the gravity of the offending as ‘serious, blatant, calculated, skilful dishonesty offending over a lengthy period of time’ and that she behaved in a ‘sophisticated, deliberate and calculated manner’. The Magistrate described the offending as ‘a clear breach of trust with her employer... and that elements of her offending went beyond need’.¹

She was sentenced to 20 months imprisonment with a non-parole period of 12 months, to be served on home detention.

A Council insurance policy enabled all of the money stolen to be recovered. The Council public officer subsequently repaid the insurer.

1: Remarks on Penalty of Magistrate B. Harrap, *Police v Schulz*, Magistrates Court of South Australia (Criminal), 2 November 2016.