

Fraud Prevention for the Public Power Industry



Speakers



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Fraud & Forensics

- Fraud Risk Training
- Internal Review Discovery
- Fraud Examination
- Coordination with Law Enforcement
- Assistance with Civil, Criminal and other Disciplinary Action
- Asset Recovery
- Anti-fraud Control Remediation



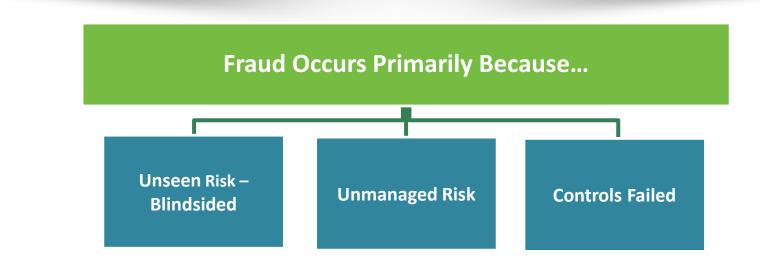


Agenda

Why Fraud Occurs
Statistics
Fraud in the News
Impact on the Energy Sector
Managing Fraud
Materiality
Questions



Our View of Risk



Note that fraud most often occurs without the aid of collusion and could have been prevented by looking at a few key areas.



Fraud Statistics

A typical organization loses 5% of its revenues to fraud each year

Corruption and billing schemes

pose the greatest risks to

organizations

Most commonly victimized industries:

Banking and financial services

- Manufacturing

- Government and public administration sectors

Report to the Nations, 2018 Global Study on Occupational Fraud and Abuse -- Association of Certified Fraud Examiners



Fraud Statistics

Internal control weaknesses were responsible for nearly half of all frauds

A majority of the victims recovered nothing

Referrals to prosecution declined over the past 10 years. Top reason for non-referral was fear of bad publicity

Report to the Nations, 2018 Global Study on Occupational Fraud and Abuse -- Association of Certified Fraud Examiners



Fraud in Energy Sector Rising

Out of ~15 industries most victimized, the energy sector is rising:

2018 ► 9th 2008 ► 15th

Source: ACFE Reports to the Nations







Fraud in the News



Fraud in the News

Former Public Utility Employee Pleads Guilty In Theft Of More Than \$4 Million From Public Utility And Customers (NY) -

- A manager in Customer Operations implemented the scheme, using his knowledge of the Public Utility's billing and payment processes.
- He carried out the scheme with a co-conspirator. The co-conspirator operated a business that aggregated payments from customers of the Public Utility for the purpose of passing such payments on to the Public Utility.
- FARCHIONE and Bendel effected the fraud in part through conspiring to submit fraudulent checks and payments to the Public Utility, in amounts owed by customers who provided cash to Bendel believing he would submit those payments to the Public Utility on their behalf.

https://www.justice.gov/usao-sdny/pr/former-public-utility-employee-pleads-guilty-theft-more-4-million-public-utility-and the standard s





Considerations

- Perpetrators often see little down side to committing these acts (*Fraud Triangle*)
- Controls & safeguards are often not the focus of mgt. and are frequently immature, overridden or nonexistent.
- Assistance from Law Enforcement may not be coming as you envisioned or expected and there can be many impediments to criminal investigations.
- Proving the financial loss is the responsibility of the victim.
- Restitution is unlikely and civil litigation is expensive.
- Reputational damage resulting from action is undesirable.



Financial Crime Sentencing

FOR IMMEDIATE RELEASE

Friday, January 5, 2018

Scott Tucker Sentenced To More Than 16 Years In Prison For Running \$3.5 Billion Unlawful Internet Payday Lending Enterprise

Joan Loughnane, the Acting Deputy United States Attorney for the Southern District of New York, announced today that SCOTT TUCKER was sentenced to 200 months in prison for operating a nationwide internet payday lending enterprise that systematically evaded state laws for more than 15 years in order to charge illegal interest rates as high as 1,000 percent on loans. TUCKER's codefendant, TIMOTHY MUIR, an attorney, was also sentenced, to 84 months in prison for his participation in the scheme. In addition to their willful violation of state usury laws across the country, TUCKER and MUIR lied to millions of customers regarding the true cost of their loans to defraud them out of hundreds, and in some cases, thousands of dollars. Further, as part of their multiyear effort to evade law enforcement, the defendants formed sham relationships with Native American tribes and laundered the billions of dollars they took from their customers through nominally tribal bank accounts to hide Tucker's ownership and control of the business.

After a five-week jury trial, TUCKER and MUIR were found guilty on October 13, 2017, on all 14 counts against them, including racketeering, wire fraud, money laundering, and Truth-In-Lending Act ("TILA") offenses. U.S. District Judge P. Kevin Castel presided over the trial and imposed today's sentences.



Juxtaposition: Financial Crime & Street Crime



Smithfield Man Sentenced To 15 Years In Federal Prison

May 31, 2018

A convicted felon caught by Smithfield Police with a stolen handgun last year has been sentenced to 15 years...





Farmer Sentenced To 25 Months In Prison, Ordered To Pay \$5.6 Million Restitution

May 31, 2018

An eastern North Carolina farmer was sentenced to federal prison on Wednesday and also ordered to pay restitution. Chief United...

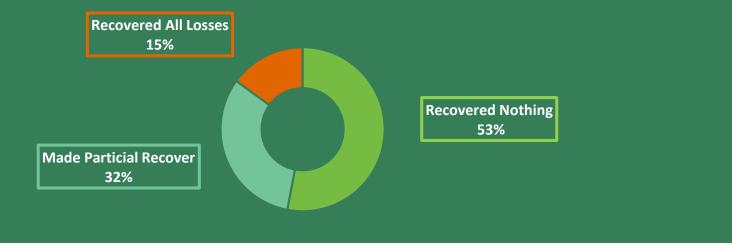
Read more



RECOVERING FRAUD LOSSES

After a fraud has been detected a victim might try to recover its losses from the perpetrator or other sources.

ACFE data shows the victims are rarely made whole.





Fraud Risks to the Energy Sector

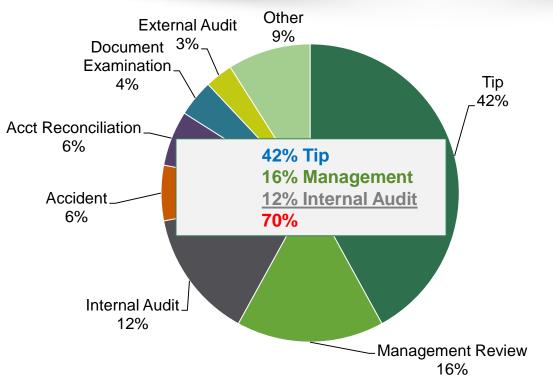


Cyber crimes

Skimming (10%)



How is Fraud Discovered?



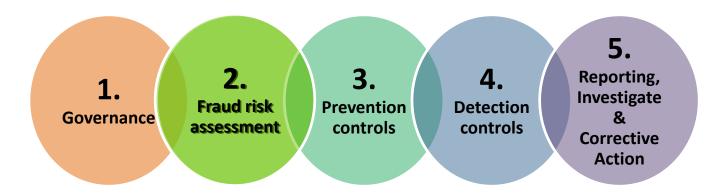
Tip

- Management Review
- Internal Audit
- Accident
- Acct Reconciliation
- Document Examination
- External Audit
- Other



5 Key Principles to Manage Fraud

"Trust is not a control and hope is not a strategy"



If you could only accomplish 1 principle what is most important?

FREE Managing the Business Risk of Fraud: A Practical Guide Joint Study conducted by The Institute of Internal Auditors, the American Institute of CPAs and the Association of Certified Fraud Examiners. Published July 2008



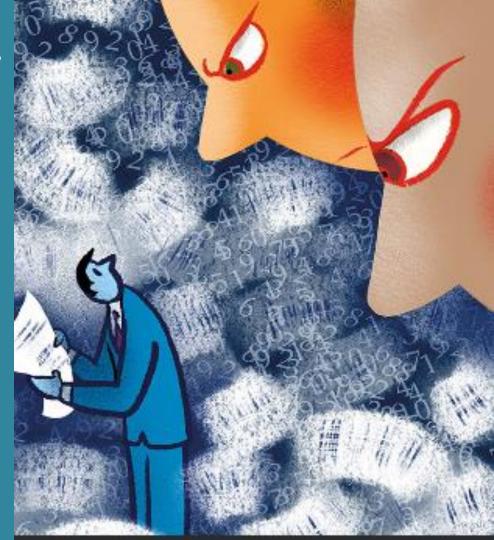
"What are Audits for?"

The Economist

"Similarly, auditors look only for errors that are "material" compared with profits or assets. The threshold is often in the range of 0.5% to 10%. These limitations might help explain why, according to the Association of Certified Fraud Examiners, auditors picked up only 4% of occupational fraud in 2017. Although some firms offer more forensic audits, they cost so much in time and money that companies choose them only if they already suspect wrongdoing."

¹ The Economist May 26, 2018 - This article appeared in the Finance and economics section of the print edition under the headline "Great expectations gap"







Incident Response

Capabilities Needed

Forensic technologists and business system experts

Public relations



How Can We Help?



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