

## \$2.2 million fraud committed by an internal employee and his partner

### Background

A Mighty River Power (MRP) employee set up companies to supply goods and services to MRP at inflated prices. He failed to declare and manage his conflict of interest with the supply companies and profited by over \$2.2 million.

MRP was a partly state-owned electrical power generator, operating multiple power stations. The employee worked at one of MRP's power stations as an electrical engineer for 11 years. He was responsible for the procurement of goods and services related to the station's machinery.

### Failure to declare the conflict of interest despite policies being in place

While employed by MRP, the employee supported his wife to set up and administer multiple companies to supply goods and services to the power station. He used these companies to invoice the station for goods and services, some of which were:

- ▶ inflated in price by up to 300%
- ▶ not delivered but were signed off and paid for by the employee as if they were delivered
- ▶ removed from the employer's premises and re-delivered to him and his wife.

Most of the goods and services were not needed or were provided by unqualified personnel at a substandard quality. The invoices were kept just below the employee's delegated authority levels to allow him to approve the invoices himself.

MRP had policies that required employees to declare all actual and perceived conflicts of interest. The employee failed to declare his conflict of interest and tried to conceal the offending by invoicing just below the threshold of his delegated authority.

### Red flag identified after inconsistency in reasoning for the purchase of machinery

The fraud was discovered after MRP employed a senior mechanical engineer. The new employee observed that some machinery had been ordered from an Auckland-based company. This was unusual because this item of machinery was unlikely to break, and it was

unusual to purchase such a specialised piece of machinery from a New Zealand-based company. He also noticed that the company the machinery was ordered from was not a preferred or approved supplier.

The engineer reported his findings to management. The company conducted an internal investigation and found that the employee in question had failed to declare his conflict of interest with the supply companies. The case was referred to the Serious Fraud Office, which investigated and laid charges. The employee received 3 years 9 months imprisonment and his wife received 9 months home detention.

### Fraud Prevention Observations

<p>Impacts</p>	<ul style="list-style-type: none"> <li>▶ A detected financial loss of \$2.2 million</li> <li>▶ Over \$200,000 spent on investigations. This included hiring multiple agencies to carry out the investigation and reallocating resources to cover 20 full-time employees to support the investigation. Employees reported feelings of fatigue as the reallocation of work left many of them working longer hours.</li> <li>▶ Employees reported feeling anxiety as an emotional impact of the fraud.</li> <li>▶ Damage to the reputation of Mighty River Power and negative media attention.</li> </ul>
<p>Fraudster Personas</p>	<ul style="list-style-type: none"> <li>▶ <b>The Enabler</b> – the employee’s wife enabled the fraud by setting up and administering the organisations under the direction of her husband without reasonable care, skill, and diligence.</li> <li>▶ <b>The Exploiter</b> – the employee misused his position of trust to fraudulently invoice the company for amounts just under his delegated to authority to avoid detection.</li> </ul>

## Case Study

Red Flags	<ul style="list-style-type: none"><li>▶ Not using a preferred supplier – the company had a preferred and approved supplier of machinery; instead of purchasing directly from the preferred supplier, the employee used an intermediary company to purchase the machinery.</li><li>▶ Processes not being followed – irregularities were identified in the procurement process.</li><li>▶ Suspicious billing/invoice practices - the employee always ensured invoice totals were below his delegated authority.</li></ul>
Effective Countermeasures	<ul style="list-style-type: none"><li>▶ The case highlights the need for <b>quality assurance checks</b> to review procurement processes and ensure practice aligns with policy.</li><li>▶ A red flag was raised after a supplier was used outside of the <b>whitelist</b> (pre-approved supplier list) and the employee continued to process orders just below the limits of his delegated authority.</li><li>▶ Other effective countermeasures include <b>segregation of duties</b>. Distributing duties across multiple functions can prevent fraudulent payments.</li></ul>
Mitigations and Responses	<ul style="list-style-type: none"><li>▶ The procurement processes were changed to include a higher level of scrutiny around sign-off procedures and more administrative checks.</li></ul>
Link to sources	<a href="#">SFO Media Release</a>
Fraud Tags	Public Sector, Administration and Support Services, Finance, Abuse of Position of Trust.



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