

Proactively managing procurement risk

- Procurement risk can have a significant impact on a company's bottom line. Potential costs from procurement risk like other costs, can be addressed by taking a coordinated approach
- Procurement risk is often indicative of other issues with procurement strategy, processes and monitoring which, when properly addressed, can potentially lead to cost savings
- Cost reduction can be a double edged sword—it increases an organization's vulnerability to fraud and abuse

The real cost of procurement risk

Corporations and not-for-profit organizations have a greater exposure to procurement fraud, waste, abuse and corruption (*Procurement Risk*) than most senior managers and board members realize. Procurement Risk is complex, technology-driven and often perpetrated by individuals with significant operational knowledge of the systems they abuse. The challenges to prevention and detection of procurement risk are further exacerbated by lack of sound fraud management processes, despite significant efforts made in connection with the Sarbanes-Oxley Act of 2002.

In corporations providing goods and services to the public sector, procurement fraud is monitored, investigated and prosecuted by Federal and State authorities operating under the National Procurement Fraud Task Force, a Department of Justice initiative. The work of the task force, since formation in October 2006, has shown the scale of the issue and the diversity of fraud schemes involved.

Increase in procurement risk may result from trends including rapid consolidation in various industries, globalization, increased use of technology in the payables cycle, proliferation of outsourcing and the need to cut costs—all of which make it difficult to maintain effective systems of internal control. In this environment, where procurement risk flourishes, there is a strong likelihood that cost saving opportunities exist.

- PwC's professionals help companies focus on how to reduce the costs associated with procurement risk by:
 - Assessing risk and performing control gap analyses over procurement, contracting and purchase-to-pay cycles
 - Identifying trends in data indicative of procurement risk
 - Helping clients develop core ethics, compliance and monitoring programs designed for procurement and accounts payable functions and benchmarked against industry leading practices
 - Providing guidance in enforcement proceedings, insurance negotiations and efforts in fraud remediation
 - Conducting training to educate staff to identify the red flags of procurement risk

Mitigating procurement risk results in creating opportunities to reduce costs

PricewaterhouseCoopers' (PwC) Forensic Services specialists have deep knowledge and experience in investigating complex procurement fraud schemes including bid rigging, kickbacks, bribery, over-billing, pay and return schemes and schemes involving fictitious vendors. Our Forensic Services team provides sound advice to help prevent and detect instances of procurement fraud and abuse, investigate root causes, quantify damages, and remediate control weaknesses.

Our deep experience investigating procurement fraud and assisting companies remediate control deficiencies also allows us to provide advice to companies in assessing control weaknesses in business processes and technology including assessment of exposure to procurement risk, enhancements to the vendor due diligence process, effective monitoring of expenditures, enhancements of system controls relating to vendor and employee master files, and monitoring of vendor compliance with contractual obligations.

Mitigating gaps in the procurement process typically results in identifying ineffective controls, redundant processes and inadequate monitoring of spend.

We apply our unique forensic technology tools to help prevent and detect procurement risk. Using our proprietary tools and technology, we help companies analyze transactions and identify unusual trends which indicate heightened risk. Where appropriate, our supply chain specialists utilize the same data and employ additional analytics in areas of specific concern to help organizations discover opportunities for cost savings through identification of waste, improved vendor management, vendor rationalization or other strategic sourcing approaches.

Impact of cost reduction efforts on procurement risk

Cost Reduction can be a double edged sword. While many organizations are evaluating most back office operations with the objective of more effectively managing their cost through this economic crisis, experience suggests that the re-design of processes and procedures can result in compromises and increases an organization's vulnerability to fraud and abuse if not addressed appropriately . This concern is particularly significant for companies with international operations who have greater exposure to potential Foreign Corrupt Practices Act risk.

Our integrated team of specialists help companies forge effective cost-reduction strategies while embedding key compliance and anti-fraud programs.

Leveraging the value of experience

Realizing that the red flags of Procurement Risk are strong indicators of opportunity for significant cost savings, our teams are entirely focused on creating value for our clients. The corrosive impact of fraud, waste, abuse and corruption has a negative impact on operations.

Benefits for our clients include:

- Improved understanding of exposure to procurement fraud, waste, abuse and corruption across organizations
- Improved internal controls to address procurement risk areas and align controls to cross-industry leading practices
- Identification of cost saving opportunities through better understanding of spend, consolidation of vendors and streamlining of the procurement process
- Assessment of technology systems, including vendor master files and other procurement support systems, to identify vulnerabilities and areas for improvement
- More effective monitoring of vendor performance

If you have any questions or would like to discuss this topic area further please visit www.pwc.com/us/forensics or contact:

Dalit Stern, Principal
Advisory Services
dalit.stern@us.pwc.com
+1 646 471 8047

pwc.com/us/forensics

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PH-09-0199