

Using Compliance as a Strategic Asset to Drive Company Performance

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COMPLIANCE WEEK 2012

Using Compliance as a Strategic Asset to Drive Company Performance

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AES Corp. is a global power company with generation and distribution businesses. Through our diverse portfolio of thermal and renewable fuel sources, we provide affordable and sustainable energy in 27 countries. Our workforce of 27,000 people is committed to operational excellence and meeting the world's changing power needs

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A Values-Driven Company

- AES' s values are at the core of our business:
 - *Put Safety First*
 - *Act with Integrity*
 - *Honor Commitments*
 - *Strive for Excellence*
 - *Have Fun Through Work*
- Promote a values-based environment
- Encourage an open dialogue on ethical issues and business practices, internally and externally

Our values add value

- Give us a common framework and support our culture
- Keep us safe and prevent physical harm
- Prevent losses from government investigations and litigation
- Prevent reputational damage from public disclosures
- Create trust with our business partners and make them more willing to work with us
- Help us better understand our business partners
- Help others give us the benefit of the doubt when things go wrong
- Improve morale and productivity
- Help retain people and other stakeholders

Global Compliance Network

- AES Values Guide (Code of Conduct)
- Contract compliance and counterparty due diligence
- AES helpline and internal investigations
- Training and communication
- Self assessments
- Ethics Champion program

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Patrick Palmer
Manager, Internal Audit
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How do automated controls benefit your compliance strategy?

- How do you monitor that approval controls and financial limits are changed only when properly authorized?
- How do you manage changes required for new system rollouts, ongoing business restructure or version upgrades?
- How do you identify what changed when errors occur?

*Using Compliance as a Strategic Asset to Drive
Company Performance*

**Potential ROI as a result of automating compliance
strategy**

- Reduction of risks
- Compliance with laws and regulations
- Reduction in external audit fees
- And, detection/prevention of fraud

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Timothy Murphy
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Automated Compliance Efforts – Measuring Return on Investment

- Several types of efficiency can be achieved through automation of compliance activities:
 - Reduced effort for management/auditors to perform compliance testing activities.
 - Reduced effort for management to perform the compliance activity itself.
 - Improved financial performance through increased revenue/ decreased cost resulting from “dual purpose” activities achieving risk mitigation and operational efficiency objectives.
- Many organizations measure the first type
- Few have implemented a method for measuring the second and even fewer for the third.

Automated Compliance Activities - ROI Example

- Automated Control identifying inappropriate changes to customer payment terms:
 - Reduced testing effort:
 - Manual testing of payment terms on sample of A/R invoices: 16 hours per quarter – 64 per year; estimated internal labor cost: \$60/hr; Total: **\$3,340/year**
 - Automated approach: 6 hours once per year to assess configuration; estimated internal labor cost: \$60/hr; Total: **\$360/year; \$2,980 potential savings/year.**

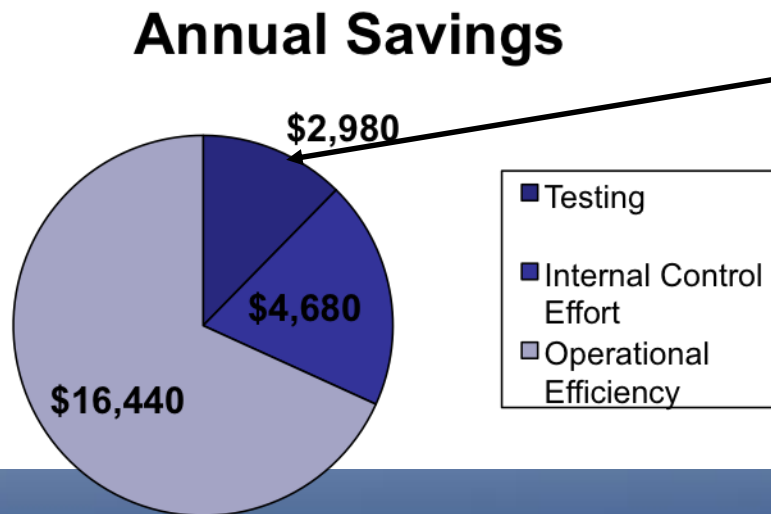
Automated Compliance Activities - ROI

Example (cont' d)

- Reduced effort to perform compliance activities:
 - Management review of terms on open A/R invoices for appropriateness: 2 hours per week; 104 per year; estimated internal labor cost: \$60/hr; Total: **\$6,240/year.**
 - Automated approach: management action based on notifications of improper changes to payment terms; 0.5 hours per week; 26 per year; \$60/hr; Total: **\$1,560/year; \$4,680 potential savings/year**
- Operational Improvement:
 - Data analysis shows 45-day payment terms (rather than 30) applied on \$5,000,000 of invoices in prior year. Assuming 8% return on invested capital, the return on \$5,000,000 is \$1,096 per day. Recovery of 15 days' return: **\$16,440/yr.**

Automated Compliance Activities - ROI Example (cont' d)

- Estimated one-time cost of implementing automated control:
 - 40 labor hours; \$150/hr estimated cost; **\$6,000**
- Total estimated annual savings: **\$24,100**
- Break-even point: 91 days.



Many compliance organizations measure only this portion when calculating ROI

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Enforcing Controls

- Some reasons to define & enforce controls:
 - Compliance
 - Governance
 - Prevention of error, waste, fraud
 - Performance (speed, profit)
- Costs of enforcement:
 - Manual effort:
 - Time and money spent
 - Time lost from working on other activities
 - Essential work left undone
 - Employee frustration, avoidance, dissatisfaction
 - Implementation and maintenance of automation

A Method to Reduce Costs, Obtain More Benefits

- Reassess control obligations and goals
 - Eliminate controls that are no longer needed
 - Rationalize: eliminate duplicate controls
- Reassess control enforcement methods
 - Rationalize: eliminate duplicate tasks
 - Cascading benefit: Free people to do their real jobs
 - Automate when cost/benefit is justified
 - Cascading benefit: Free people to do their real jobs
 - Cascading benefit: Find things humans usually don't
 - Capture additional benefits
 - » Cascading benefit: Squeeze out financial waste
 - » Cascading benefit: Improve or accelerate business processes

Ways to Use Automation to Find Things Humans Usually Don't

- Find users who have too much access
 - Needed to manage unactionable transactions? Improve business process.
Benefit: Accelerate business.
 - Abused? Examine transactions, detect and eliminate fraud.
Benefit: Increase profit.
 - Inherited? Review and prune access.
Benefits: Reduce out-of-policy activity, Improve ethical climate.
- Find duplicate and fragmented transactions – e.g., payments, invoices, vendors, expenses, enticements
 - Generated by duplicate processes? Eliminate duplication.
Benefit: Increase profit.
 - Fraud? Discover and prevent.
Benefit: Increase profit.

Ways to Use Automation to Find Things Humans Usually Don't

- Find configuration churn
 - Do managers make too many overrides? Improve business decision process.
Benefits: Accelerate business, Reduce financial surprises, Increase profit
 - Is configuration being abused? Examine related transactions, detect and eliminate fraud.
Benefits: Increase profit
 - No obvious reason? Examine access to configurations, transactions governed by them.
Benefits: Accelerate business, Reduce financial surprises
- Find out-of-policy configurations or transactions
 - Review causes and effects, improve business processes.
Potential benefits: Accelerate business, Increase profit

Case Study

A manufacturer used automation to:

- Find configuration churn in payables
- Find Purchasing employee was disabling PO auto-numbering, assigning numbers manually
- Find that customer master data existed in several places
- Find uneven enactment of new policy: Change terms from Net 30 to Net 45
- Find user who could do everything in O2C...then find another user who could too
- Next, plans to use automation to:
 - Rationalize regional risk control matrices
 - Ensure functions segregated, controls reviewed
 - Relieve some need for manual tests/controls