



Mitigation On The Pilferage Of Valuable Scrap Material

Based On An Eskom Case Study

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- **INTRODUCTION & BACKGROUND**
- **CHALLENGE - PROBLEM STATEMENT**
- **ROOT CAUSES AND CONTROL DEFICIENCIES**
- **SUMMARY**

The warehouse environment represents a critical link in the supply chain and it is vital that any organisation maintains a structured, secure and error-free environment as efficiently as possible.

Recent investigations and audits conducted, identified significant deficiencies with regard to the appropriate business processes and controls guiding the material management environment.

As a result warehouses, stores and distribution centres have become constant targets of theft and pilferage leading to significant inventory and financial losses, most of which the organisation is apparently completely oblivious to.

Often great focus and management are on business processes and controls with regards to **new material and equipment**, whilst inefficient management processes and controls are prevalent, with regards to valuable scrap material and equipment.

- ❖ With regard to the recent and ongoing investigations by Group Security Investigations (GSI) with reference to network Infrastructure Crime, serious control deficiencies were identified.
- ❖ The amount that the organisation loses annually is unknown but considering the value of stock recovered by GSI during the past year, the losses are significant.
- ❖ To address the problem, greater effort and support is required from all the responsible functionaries across the organisation.
- ❖ As South Africa's economy continues on a downward slide, the potential of increasing losses due to material theft and pilferage spiraling out of control has become a significant risk.
- ❖ An assessment of the Physical security and access controls in the warehouse environment, project Sites, operational and business units, are currently extremely poor.

- ❖ Not only is heavy reliance placed on contract security personnel who have no training in identifying the different stock items issued by the facility, but generally they have no technical support in terms of cameras, scanning equipment or even proper gate access to record or track the removal of equipment from the site/facility.
- ❖ The situation is often compounded by the complete absence of store personnel, or in cases where the position has been filled, a lack of training or knowledge by the official of the relevant processes and procedures.
- ❖ The deliberate circumvention of the processes and controls and/or incomplete documentation customarily accompanies these situations rendering any attempt at the reconciliation of stock items fruitless.

1. BUSINESS PROCESSES AND CONTROLS

- The absence of accountability over store items (inventory control) complicated by the lack of properly trained store personnel.
- The lack of proper record keeping to track the movement of new and scrap transformers between RDC`s, CNC`s and MEW`s.
- Ignorance, negligence and obliviousness of supervisory and middle management staff with regards asset management and controls. Furthermore, a general lack of knowledge regarding the efficient use of security measures, staff and resources to assist them in the overall protection of Eskom assets and resources.
- Ineffective application of general project management principles in the movement and securing of material.
- Incomplete and inaccurate capturing of stock data.
- Infrequent and/or ineffective audits of the warehouse environment.

2. ASSET DISPOSAL PROCESS

- Disposal Policy and standard.
- Manual system applied – checks and balances
- Vendor/Contractor database management and the selection criteria and technical evaluation process of vendors specifically for the disposal of scrap transformers.
- Existing subjective invitation and selection process of tenderers, subsequent evaluation process and issuing of contracts to the successful tenderer.
- Inadequate oversight processes dealing with the physical aspects of the asset disposal process including the inadequate document control.

3. SECURITY MEASURES

- Security processes, especially access control do not compliment sound business principles.
- Security measures are not in line with the prescribed physical security measures (PSD`s) and requirements.
- Security practices do not support the business processes and controls, specifically with regard to the protection and management of material.
- Incompetency of security personnel.
- Poor security contract management.

- Sensitise Senior and middle management.
- Assessment and Revision on existing policies, Standards and Procedures with regards Asset Disposal and scrap material/equipment controls
- Reconciliations at completion of electrification projects
- Staff training and Awareness on all levels
- Criminal and Civil Litigation
- Improve Housekeeping
- Regular cycle counting of stock

- Reconciliations at completion of electrification projects
- Accountability
- Documentation Control
- Enhanced supervision over the dispatch and movement of material.