

Document Imaging Report

Business Trends on Converting Paper Processes to Electronic Format

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Mavro Helps Con Ed Detect Large Fraud Operation

Talk about an ROI. An upgrade by **Consolidated Edison** (Con Ed) to a **Mavro Imaging** capture system has helped the electricity provider uncover several million dollars worth of fraud. "Combined with data analysis, the system revealed some striking irregularities," stated Frank D'Amadeo, Director of Treasury Operations at Con Ed, in a press release. "In fact, a series of detected variances pointed directly to fraudulent activity."

This activity led to the arrest and conviction of former Con Ed employee John Farchione and an accomplice, Louis Bendel, who ran a payment consolidation business. Farchione, who pled guilty to three counts of fraud, as well as identity theft, was recently sentenced to seven years in prison and ordered to pay more than \$7 million in restitution. Bendel was scheduled to be sentenced this month.

Con Ed has been a Mavro customer since 2016, starting with an initial implementation for payment processing. "We have a pretty good percentage of the leading utilities as customers, including over a third of the leading electricity providers," said Mavro Founder and President George Hayduchok. "Like most of them, Con Ed started out processing

bills and checks that arrive in their facility.

"Subsequently, they still were having to fight to find justification for keeping the processing in house vs. outsourcing it—primarily due to the cost of labor. Frank asked what else we could do to make the cost-justification a no-brainer going forward. The plan became to automate as many processes as possible."

Over the years, Mavro has worked to expand its platform. It now offers "data enrichment" modules in areas like document classification, image enhancement, and data validation. "We are now working with multiple departments at Con Ed and offering functionality like data gathering, automated returns, and correspondence and exception processing," said Hayduchok. "We can offer this wide range of functionality all on the same platform."

Added D'Amadeo, "The Mavro system allowed us to eliminate small organizational silos that did manual processing for things such as ACH transactions, bank check returns, reconciliations, correspondence processing, and accounting functions and to do everything automatically within one highly-capable platform."

One of the processes that has been automated involves the debiting of credit on customer accounts when checks bounce. Unfortunately for Farchione and Bendel, this helped ruin their scam. According to court records, Bendel "operated an unauthorized payment aggregation business in Astoria, Queens. [Con Ed services customers in New York and New Jersey.] Through his business, Bendel accepted cash payments from local residents of the Astoria community for payment of their Con Edison bills."

Bendel would then keep the money (which he split with Farchione) and write bad checks to Con Ed which would make it appear that his customers had paid their bills. The way Con Ed runs its operation, a customer's account is credited when their payment is received, and if a check bounces, their account is subsequently debited. From the court records, "Mr. Farchione would use his position as supervisor in the Payment Correction Group to prevent the debiting of payments from customer accounts that had been credited prior to the check bouncing. This resulted in customer accounts appearing to be paid in Con Edison's system and Farchione and Bendel taking what added up

to millions of dollars over the years." They even went so far as to collect refunds on supposed overpayments made with fraudulent checks.

According to the court documents, "In June 2016, Con Edison automated the processing of customer account reversals. The new software automatically debited customer accounts [when a check bounced]." To combat that, Farchione would go in and manually re-credit the accounts. According to Con Ed's D'Amadeo, "Combined with data analysis, the system revealed some striking irregularities. In fact, a series of detected variances pointed directly to fraudulent activity."

Farchione resigned shortly after Con Ed launched an internal investigation. "Automation is good from the standpoint of improved efficiency; it also reduces the risk of people being able to manually tamper with a process," noted Hayduchok. "And being able to automatically capture more data gives the user a greater ability to run queries and pick up on trends. We are continuing to work in collaboration with Con Ed to refine and increase the queries they can run. A lot of the money they lost will never be recouped, but having these new capabilities will put people on notice that they might want to think twice about attempting anything."

Hayduchok noted that although the fraud detection aspects at Con Ed were primarily a professional services implementation, it is something that can be duplicated at other sites. "The story has definitely sparked interest in our customer base, but they have to have a reason to implement it," he speculated. "The management at Con Ed was very proactive and had suspected that something was up. Their balances at the end of the year had not been matching up."

We concluded by asking Hayduchok if he could share any trends he is seeing in the payment processing market. "We are still seeing a reduction in paper payments, but it's not as dramatic as it was five to eight years ago," he said. "The biggest trend is customers debating whether to keep their processing in house or move it to outsourcing. The pendulum seems to be swinging toward outsourcing. We have a number of banks and service bureaus that we work with who provide those types of services."

"We've had customers ask if we could do the outsourcing ourselves, but that is something we opted not to do. Instead, we have focused on expanding our solution and have improved our capabilities in areas like workflow and forms processing. We continue to grow and enjoy profitability and expect to see steady growth over the next five years."

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<https://www.documentimagingreport.com/?p=6016>

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