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PRESENTS

Developing Trends in the Forensic Industry: What Every Risk Manager Needs to Know

Developing Trends in the Forensics Industry

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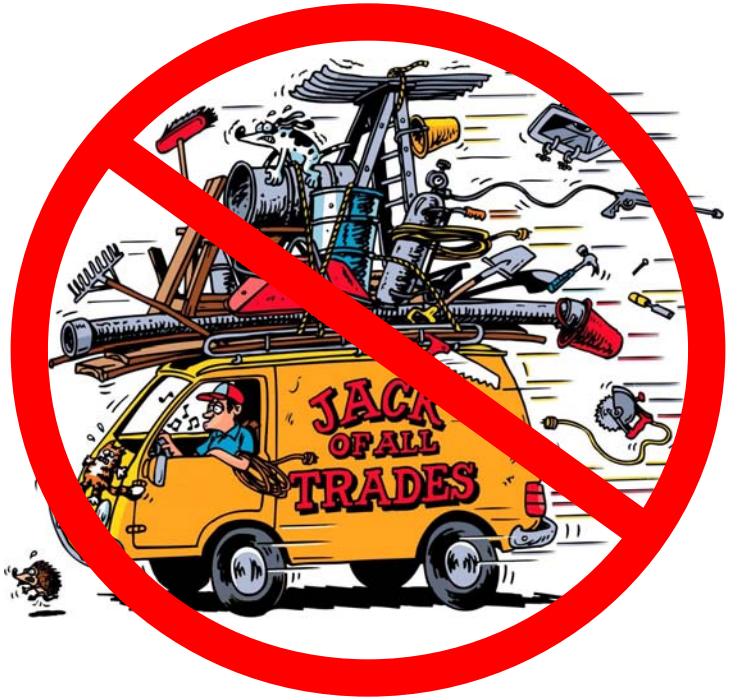
How is Forensics Changing Now?

- Firms are getting larger– but for a reason
- Industry has matured beyond the '*jack-of-all-trades*' expert
- Today, proficiency requires dedication to one area
- Clients have many types of questions - a capable firm needs to have dozens of consultants – difficult to achieve



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Developing Trends in Forensic Accounting and Computer Forensics

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Beneath the surface…to get the real story

From this……

To this……

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The corporate world is changing…

- Corporate scandals
- Public demand for accountability
- Regulatory/legislative requirements
- Auditors must consider fraud
- Increase penalties for securities offences
- IFRS
- Technology

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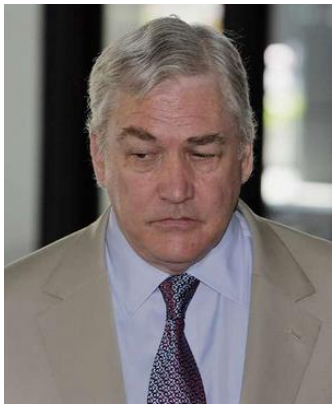
Some familiar faces…

Felderhof

Ebbers



Black

Rigas

Madoff

Drabinsky

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Fraud Statistics

- One-fourth of frauds were greater than $1m
- Occupational fraud frequently continues for years before detected
- Most common scheme was corruption (27%) and fraudulent billings (24%)
- Occupational frauds most like to be identified by tips

Source: 2008 Report to the Nation on Occupational Fraud and Abuse

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Why do people commit fraud?

G – Greed

O – Opportunity

N – Need

E – Expectation of being caught is low

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Case #1 – The Fraudster (aka the “trainer”)

Scenario:

CFO contacted by bank re: suspect cheque; initial estimates suggest fraud $2-3m.

What was done:

Recover deleted online requisitions from employee’s computer; reviewed cancelled cheques, conducted interviews, background searches, execution of Anton Piller Order (civil search warrant).

Outcome:

Fraud quantified to exceed $8 million; fraudulent accounts set up; fraudster trained staff on system he developed. Company implements review of fraud framework to assess fraud risks.

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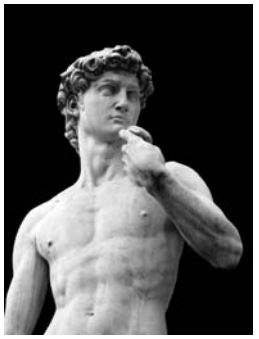
Case #2 – Stolen Artwork



Scenario:

Seven-figure claim filed for stolen artwork

What was done:

Claimant produced a digital picture of the stolen artwork, which we confirmed was taken after the date of loss; the data embedded within digital image was used to support this fact

Outcome:

Seven-figure claim withdrawn due to recovery of data

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The “technology” factor

Personal devices now using larger storage mediums (i.e. Over 1 Terabyte)

Note: 1 Terabyte = approx. 16 million Commodore 64's

End user level of sophistication increasing

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“F.R.E.D.”

This single tower has more than enough power and storage for today’s large and demanding investigations. Considering what we’ve encountered in the field with the cost of disk storage having dropped dramatically in the past five years, we’re well ahead of the curve.

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You suspect fraud – now what?

1. Stop the loss – limit the damage
2. Secure the evidence
3. Understand the objectives
4. Preserve assets
5. Investigate and report
6. Recover
7. Address internal control deficiencies

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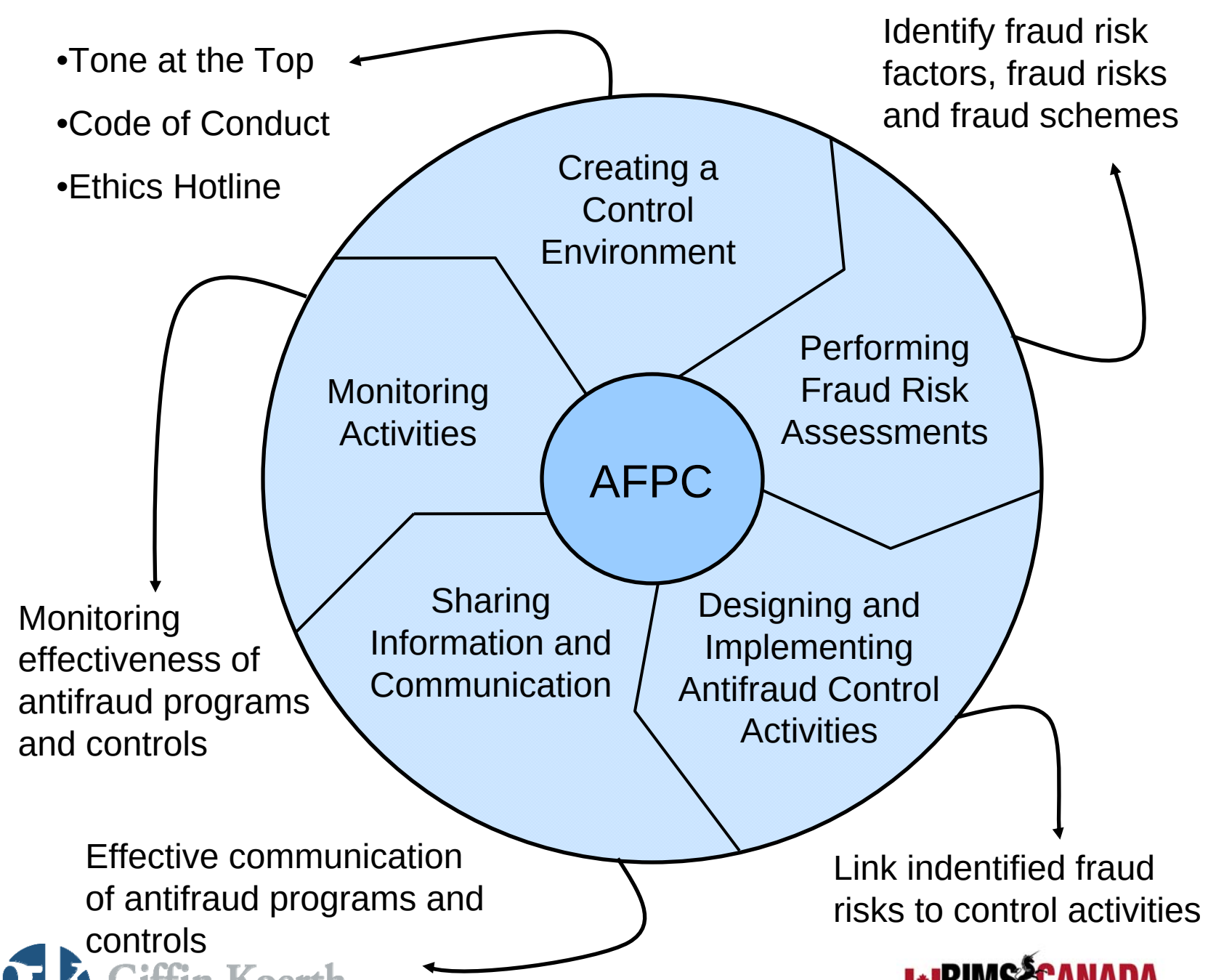

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Case #3 – The Payroll Payoff

Scenario:

Management identifies suspect/unsupported transactions relating to payroll. Payroll clerk is suspended pending investigation.

What was done:

Payroll records revealed new cost center created to house two "ghost" employees. Unauthorized overtime substantiated through doctored OT forms. Interview of employee revealed gambling/financial issues and missed promotions, led to fraud.

Outcome:

Client recovered $0.8m through fidelity policy. Fraud risk assessment revealed significant weakness in internal controls that could have mitigated fraud.

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Current trends in risk management

- Forensically imaging c-suite computers
- Fraud risk assessments
- Proactive training/cultural surveys
- Ethics hotlines
- Anti-fraud policies & fraud response plans
- Annual sign-offs of corporate policies

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Developing Trends in Large Industrial Losses

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Trends in Industrial Losses

- Past experience
- The Fit
- Learning from mistakes
- Bridging the gap
- Coordination of cross disciplines

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Case #1 Viable and Useable 80 MVA AFT

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The Details

- Integrated steel mill
- Failure of AF transformer
- Re & Re 3/5 days
- Spare on Site
- Failed transformer removed
- New spare transformer installed
- All good, everybody happy
- Completed within the policy waiting period

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Sleepless Nights

- Hold on here
- Very smart mill electrical engineers
- Let’s test the oil
- Very high moisture content
- If energized, without testing, massive internal damage would have resulted
- No other spares on site
- Extended down time, perhaps months.

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What Happened?

- Policy coverage?
- Storage?
- How long?
- How much?

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Case #2 – The Unexpected

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Details

- 5km HV cable in duct
- Power plant to steel mill
- Fault in mill
- Slow acting OCB
- Short circuit back to power plant
- SF6 breaker in power plant
- All good, no problem...right?

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Big Problems

- Water authority
- Marina
- White yachts
- Water line
- Massive failure
- Hole in Steel cable

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Sleepless Nights

- No problem??
- Freeze pipe??
- Splice and dice??
- Not so fast??
- Oily water
- Not so white yachts

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Outcome

- How long??
- How much??
- Policy coverages
- Subrogation…

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Some final remarks…

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Thank you for your attendance – Questions?

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