

EVALUATING CORPORATE COMPLIANCE PROGRAMS – INTEGRATING DATA ANALYTICS

August 2019

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Today's Program

- I. Discuss the April 30th Guidance from the DOJ *Evaluation of Corporate Compliance Programs*
- II. Effective use of forensic tools, data analytics and related challenges
- III. Case Examples

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Before Discussing The Guidance...



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Some Troubling Trends

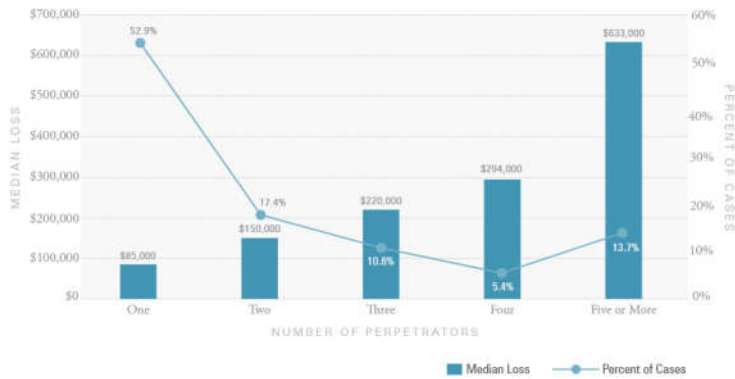
- Growing sophistication of schemes
- Cross functional circumvention of controls
- Better understanding of internal monitoring function
- Growing awareness of investigatory protocols
- Increased prevalence of conspiratorial behaviors

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The Impact of Collusion

Figure 87: Number of Perpetrators—Frequency and Median Loss



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Fraud's Trajectory

- Typically starts out small
- Increases in complexity and aggressiveness
- Often grows in magnitude, and number of participants
- Will rarely cease on its own accord



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The April 20, 2019 Guidance...



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Three Principle Questions

- Is the corporation's compliance program well-designed?
- Is the program being applied earnestly and in good faith?
- Does the corporation's compliance program work in practice?

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Does Your Compliance Program Work?

- The Guidance points to several factors companies should consider when assessing efficacy:
 - The process for continuous improvement through periodic testing and review
 - The thoroughness of investigating suspected misconduct
 - How are gaps mitigated and curative measures deployed and monitored

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Employing Ongoing Monitoring

**Doing More
With Less**



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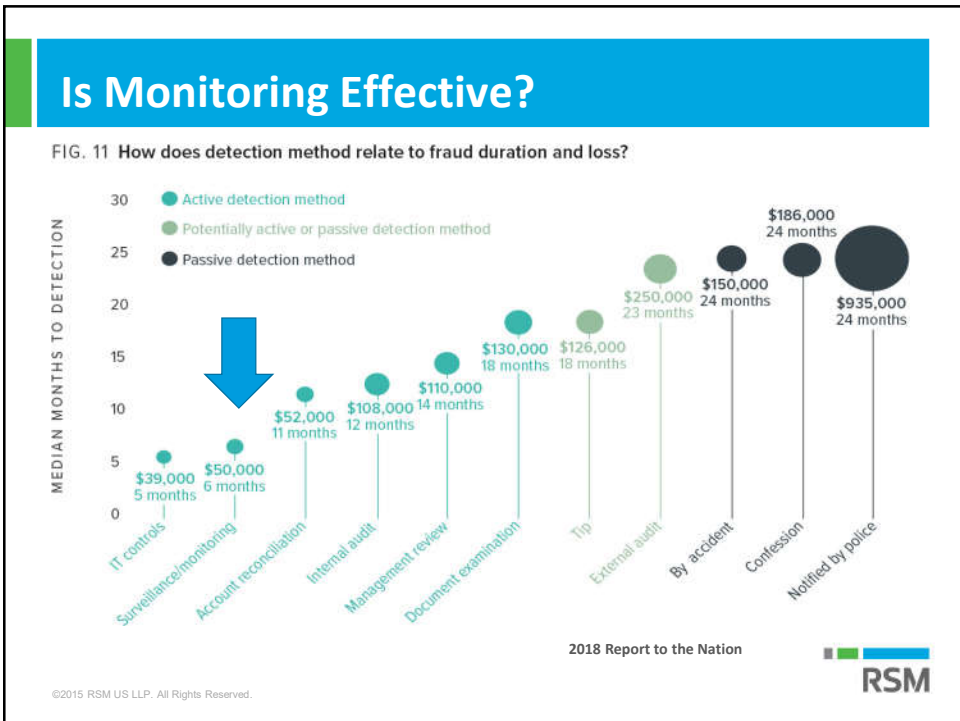
What is Ongoing Monitoring?

Data mining software coupled with advanced analytics and exception management capabilities


Established forensic protocols and recognized investigative methods

- Real-time (or near real-time) detection of:
 - ❖ Inefficiencies in purchasing
 - ❖ Potentially anomalous transactions
 - ❖ High-risk relationships
 - ❖ Compliance failures
 - ❖ Circumvention of controls

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Employing Forensic Tools



Found It!!!


Congratulations, it only took you 65298 seconds

Inefficiency Drives Cost




www.jolyon.co.uk

Data Analytics Overview



- Use of forensic tools to analyze the company's existing data
- Looks for problematic transactions and data that fail to fit existing norms or company parameters (PATS)
- The larger the data set, the more robust the results



Data Analytics – Challenges

- Accessibility
 - Are there issues with legacy systems and acquisitions?
- Reliability/Completeness:
 - Do non-numeric fields contain numeric data (and vice-versa)?
 - Can it be reconciled to a control point?
- Integrity:
 - Has data transferred from legacy systems been adversely affected, altered, corrupted or truncated?
- Consistency:
 - Are date formats consistent across the data sets?

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Data Analytics – Case Examples



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Data Analytics – Case Examples

- Investigating allegations of embezzlement at a mining operation in South America reported by whistleblower
- Challenges:
 - ❖ Client asked us to review transactions with vendors over a three year period to identify “ghost vendors” – boiling the ocean
 - ❖ Company had over 10,000 vendors
 - ❖ Nobody would talk to us
 - ❖ Jungle roommates
- We identified over 60 vendors that were either providing no value or were providing limited value for funds received

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SAMPLE OF ANALYTICS PERFORMED

Payment
"Scoring"
Analysis


Increased
Frequency by
Vendor Test

Sequential
Invoice
Analysis

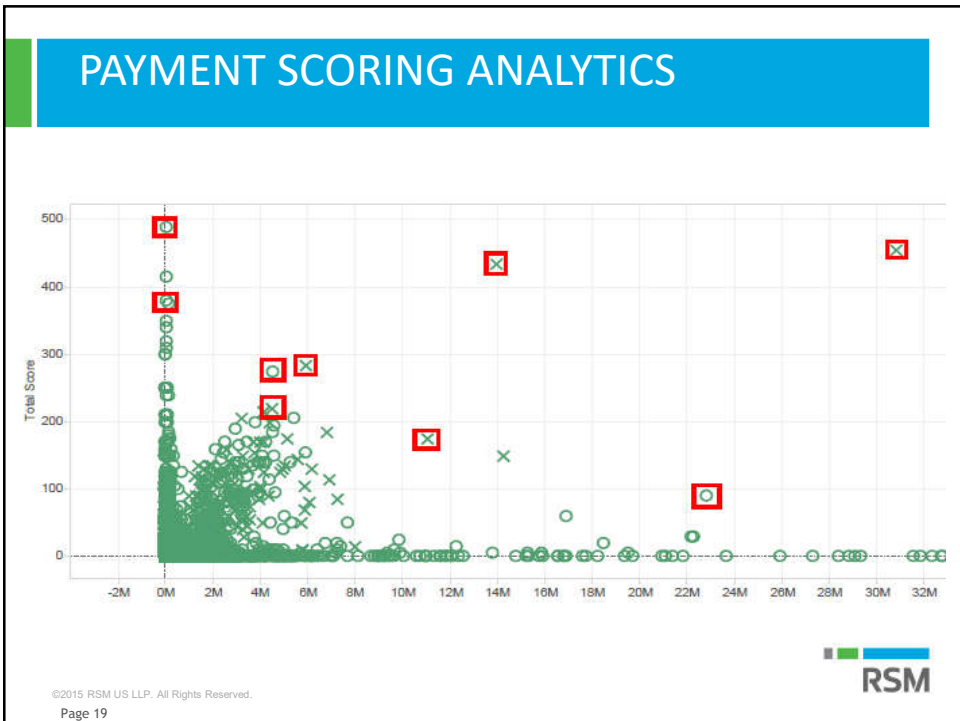
Payments to
Vendors outside
the state

Employee-
Vendor Address
Match

Employee-
Vendor Name
Match



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INCREASED FREQUENCY BY VENDOR ANALYTICS

Vendor ID	2014 Total Payments	2015 Total Payments	2016 Total Payments	Total Payments	Total Spend (USD)	Number of Instances of Sequential Invoices
8400005858	12	29	36	77	2,169,211.61	23
8400011305	0	0	33	33	2,195,566.85	466
8400010488	6	30	46	82	2,040,389.05	61
8400011311	0	0	30	30	1,611,123.26	121
8400010246	10	30	41	81	2,011,140.68	223
8400002051	27	46	68	141	929,394.38	14
8400010579	2	38	46	86	1,112,645.32	21
8400010566	1	14	22	37	604,626.18	13

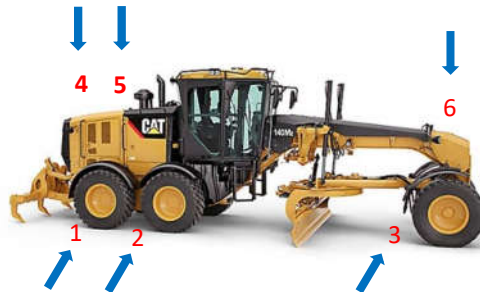
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Analyzing the Data: Examples

	M08013	M08014	M08015	M08016	M08017	M08018	M08019	M08020	M08021
12/15/2014	10	10							
1/14/2015			10	10					
1/23/2015					10	10			
1/29/2015							10	10	
2/4/2015									10

M00000	
9/8/2015	10
9/21/2015	10
10/6/2015	10
10/20/2015	10
11/6/2015	10
11/18/2015	10
11/19/2015	10
11/25/2015	10
12/10/2015	10
12/14/2015	10
1/12/2016	10
2/10/2016	10
Grand Total	120



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Fabricating Supporting Documents

Order 1



Order 2



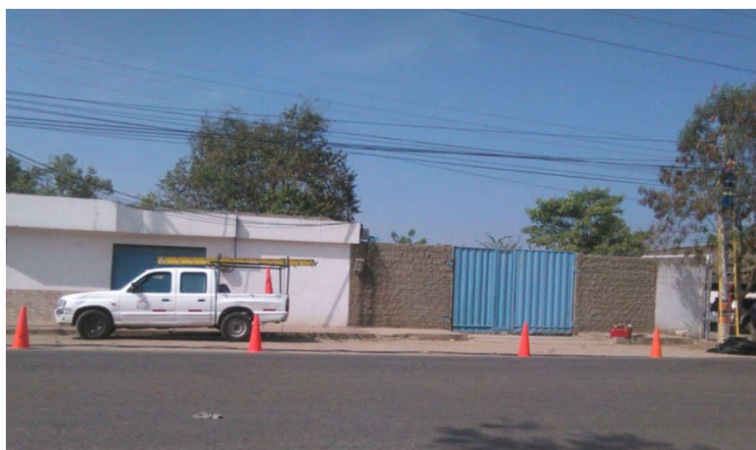
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Geographic Analysis



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Related Party Distance Analysis

Vendor:
Turner Parts, Inc.
245 W Evergreen Ave
Chicago, IL 60610

Employee:
Russel H Turner
1345 N Wells St
Chicago, IL 60610

245 W Evergreen Ave

Franklin Fine Arts Center

1345 N Wells St

2 min
0.1 mile

78% Name Match
0.1 Miles Distance Match

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VENDOR GEOGRAPHIC REVIEW

Health Services - \$38k

Hospital Charges - \$29k

Equipment Repair - \$40k

Chiropractor - \$12k

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Vendor Site Visits: Follow Up Visits



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Shell Vendors

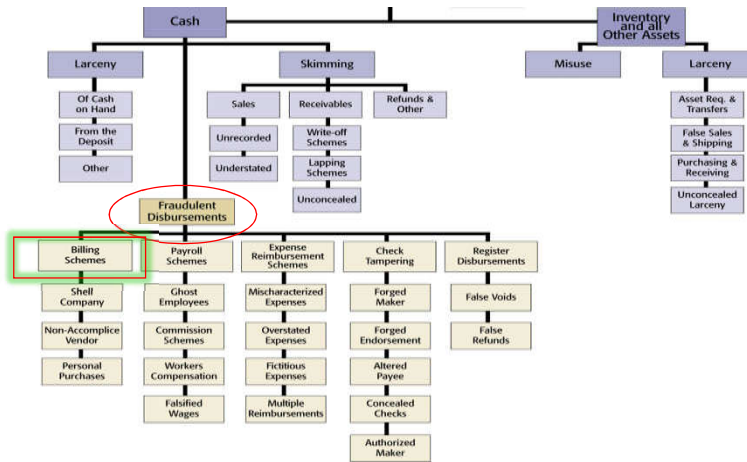
- ▶ Found a significant number of “shell” or “ghost” vendors
- ▶ Vendors were found to be non-existent
 - ▶ Had unusual frequency and growth attributes
 - ▶ Unable to locate or contact
 - ▶ Formation dates approximated beginning of business relationships
- ▶ Total spend: High seven figures



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Misappropriation of Assets



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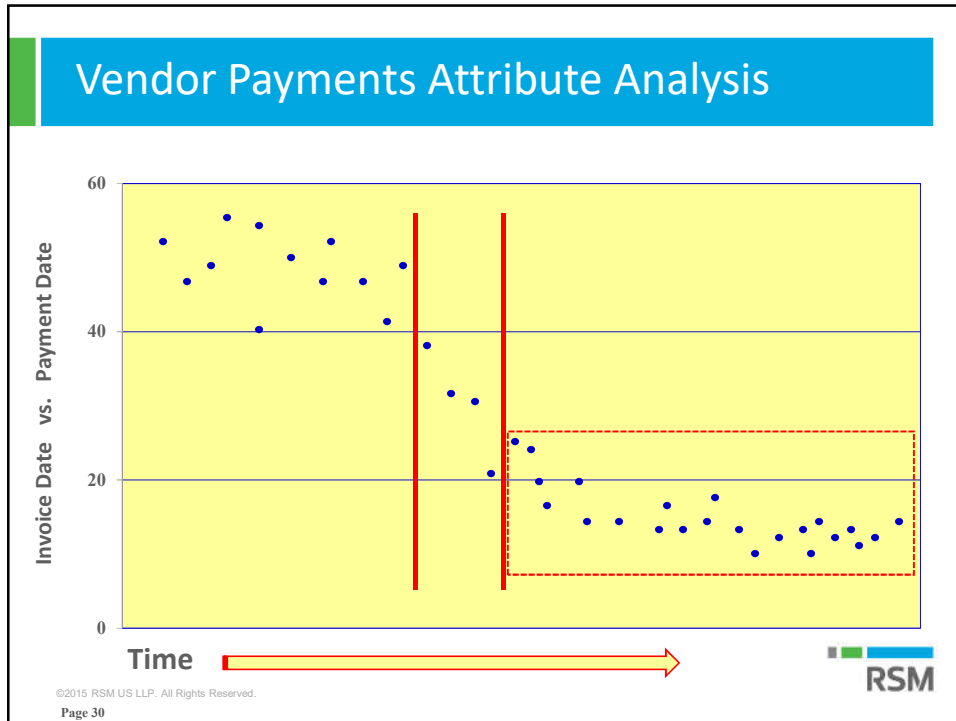


Analytical Testing - PATs

- Stratification
- Gaps/Duplicates
- Filter/Sort
- Non-Recurring
- Aging
- Join/Relate
- Relational Analysis
- Ratio Analysis
- Frequency Analysis
- Missing Data
- Trends/Regression
- Benford's Law

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Analytics Challenges - PATs

- There are several fundamental challenges, including:
 - Potentially anomalous transactions fail to reveal that they have no legitimate business purpose
 - Potentially anomalous transactions fail to indicate that they were consummated for less than equivalent value
 - False positives
- Techniques should identify transactional patterns in the form of more complex combinations

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Monitoring vs. Traditional Approach

Ongoing Monitoring

- Evaluates 100% of the transactions or associated target functions
- Transactions or functions requiring further review are identified in real-time (or near real-time)
- Process is highly automated and can be repeated on as frequent a basis as required
- Automatically brings in relevant outside data
- Leads to optimal allocation of limited internal resources
- Timely correction of errors and identification of prohibited behaviors

Traditional Approach

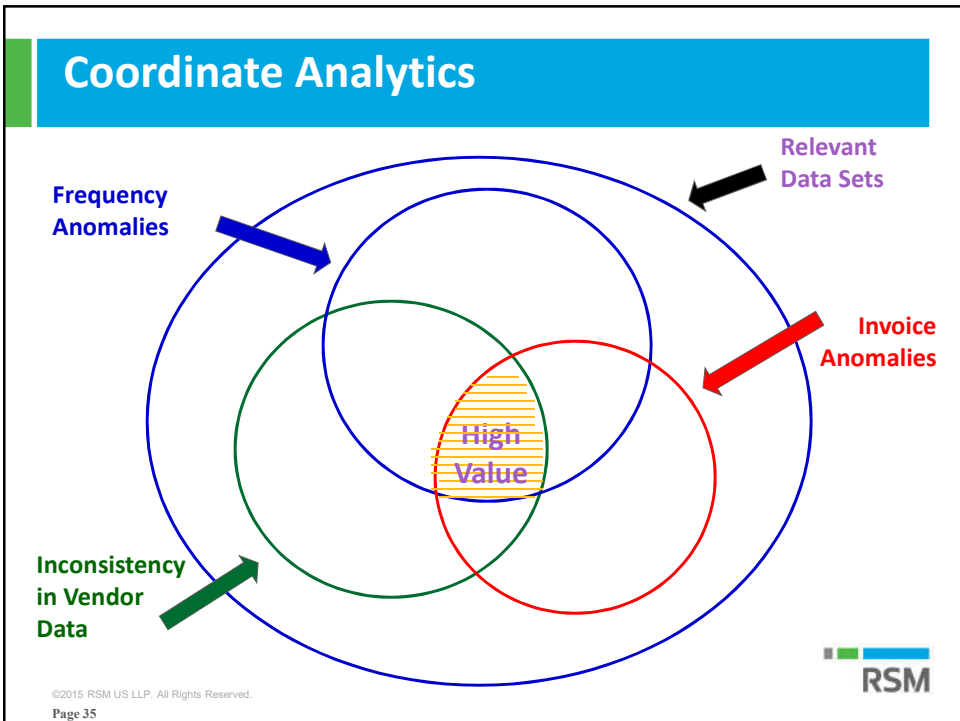
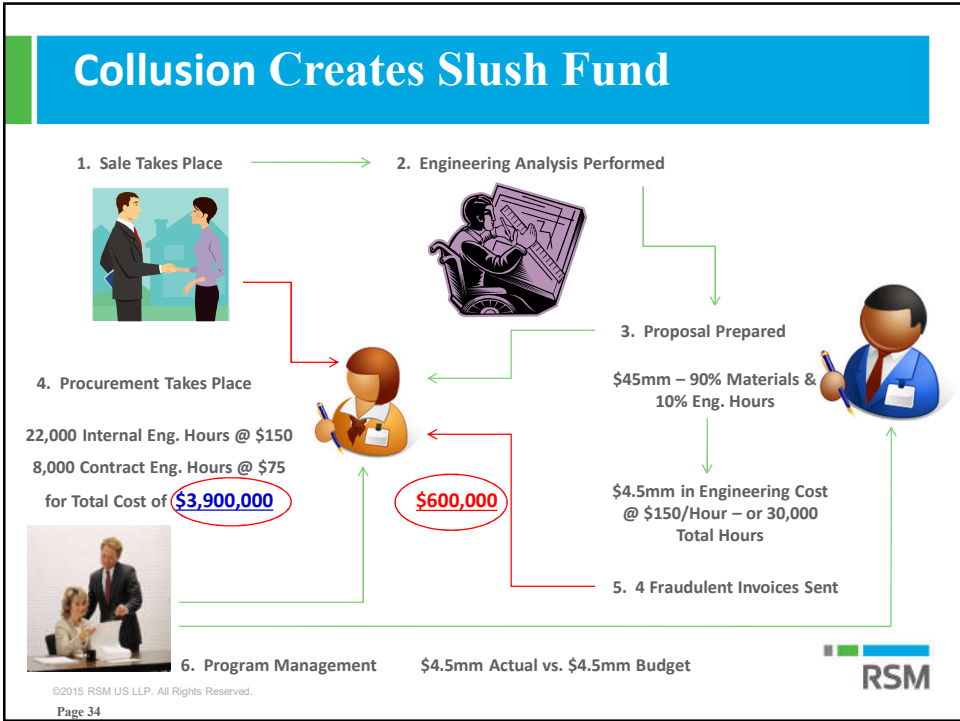
- Evaluates only a small percentage of transactions or targeted functions
- Transactions or functions requiring further review are identified during scheduled reviews
- Process can be automated and is repeated on a rolling basis as determined by IA
- Outside data is considered only if it is specifically sought
- Internal resources are dispatched in less than optimal fashion
- Errors and prohibited behaviors are not identified on a timely basis

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A Case in Point





The End Result



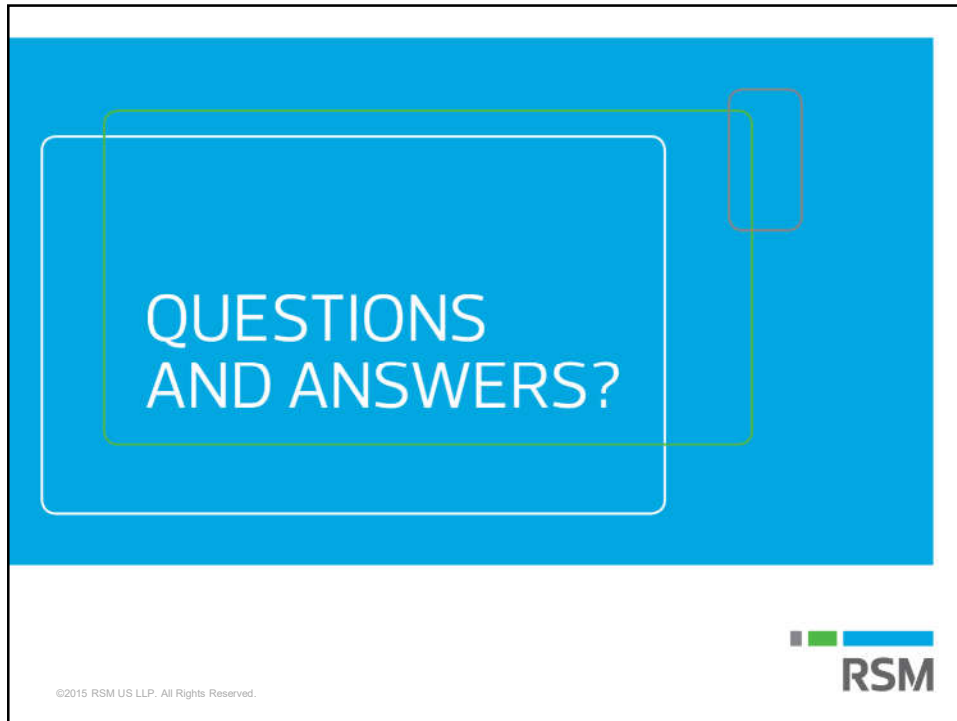
**In addition to
mitigating your
risk of loss...**



Ongoing Benefits Include...



- Continually evaluate efficacy of existing control environment
- Implement measures to fill gaps in the existing control environment
- Improve/augment the qualitative nature of data being captured
- Objective basis for quantifying system-wide risk
- Eliminate waste and inefficiencies in the supply chain
- Uncover and eliminate high risk 3rd party relationships
- Evaluate training regimens
- Improve/augment existing IA protocols
- Assess overall compliance with the books & records provisions of the FCPA and other pertinent laws
- Monitor compliance and ongoing risk of newly acquired businesses





QUESTIONS
AND ANSWERS?


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