Agenda

- Overview of Fraud and Misconduct
- The Investigation: Items to Consider
- Role of Internal Auditor
- Remediation
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The Fraud Triangle

Three conditions generally exist when fraud or other misconduct occurs.

- Incentive / Pressure
- Opportunity
- Rationalization
Major Categories of Fraud and Misconduct

- Misappropriation Of Assets
- Corruption
- Fraudulent Financial Reporting
Fraud Occurrences

Percentage of Fraud Occurrences

- Asset Misappropriation: 86.3%
- Corruption: 4.8%
- Financial Statement Fraud: 32.8%

Source: ACFE 2010 Report to the Nations on Occupational Fraud
Fraud Cost

Percentage of Total Dollars Lost

- Asset Misappropriation: 68.0%
- Corruption: 20.8%
- Financial Statement Fraud: 11.3%

Source: ACFE 2010 Report to the Nations on Occupational Fraud
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Project Management

- Agreement on scope and mandate
- Attorney-client privilege
- Pre-fieldwork planning and analysis
- Coordination of resources
- Cost management
e-Discovery Considerations

- **New methods that reduce e-Discovery review costs**
  - Grouping document sets into common themes of documents
  - Clustering and removal near duplicates
  - Predictive coding

- **Timely preservation**

- **Privacy and data protection**

- **Trade secret and government secret issues**
Forensic Analysis Considerations

• Access to information
• Timeliness
• Dollar value thresholds
• Structured vs. unstructured data
Interview Considerations

- Access to people
- Cultural issues
- Conducting the interviews
- Documentation protocols
- Attorney-client privilege issues
Project Reporting Considerations

- Who receives the report?
- Format
- Conclusions
  - Manage expectations upfront
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The Compliance Continuum

Compliance Officer and Compliance Committee
- Officer is focal point for compliance and has authority to review documents.

Investigation
- Develop and implement a response plan and policies to investigate alleged non-compliance.

Enforcement
- Develop and enforce policies and procedures to address compliance breaches including sanctions.

Monitoring & Auditing
- Risk evaluation to monitor compliance, identify problem areas and reduce identified problems.
- Compliance officer to document the monitoring and report suspected breaches to senior management and the compliance committee.

Policies, Procedures & Practices
- Policies developed under the direction of the compliance officer and committee.
- Policies provided to all affected employees and business partners.

Education & Training
- Require affected employees to participate in appropriate training programs.
- Retain records of training programs including attendance.

Communication
- Hotline or other reporting process so employees can make complaints or ask questions.
- Procedures to protect the identity of complainants and to protect them from retaliation.
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Planning

- Audit ownership
- Inventory of policies
- Interview legal counsel and compliance
Data Analytics

- Obtain transactional download
- Evaluate scope (AP, expense reports, etc.)
- Perform initial analysis
Fieldwork

- Interview process
- Interactions with customers
- Third-party agents
## Spectrum of Transactions

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete Documentation</td>
<td>Proper documentation provided to IA. Including specific details of the pre-approved facilitation payment, parties involved, amount spent, purpose of the payment and results obtained.</td>
</tr>
<tr>
<td>Complete Disclosure</td>
<td></td>
</tr>
<tr>
<td>Some Documentation</td>
<td>Partially completed documentation provided to IA. Includes incomplete transaction details and incomplete supporting documentation.</td>
</tr>
<tr>
<td>Some Disclosure</td>
<td>No disclosure of transaction made to IA. Incomplete documentation was kept in relation to a facilitation payment. Assess whether there was an attempt to hide information from the auditor.</td>
</tr>
<tr>
<td>Some Documentation</td>
<td>No documentation nor disclosure provided to IA. Assess whether there was an attempt to hide information from the auditor.</td>
</tr>
<tr>
<td>No Documentation</td>
<td>No documentation nor disclosure provided to IA. Assess whether there was an attempt to hide information from the auditor.</td>
</tr>
<tr>
<td>No Disclosure</td>
<td></td>
</tr>
</tbody>
</table>
Thank you

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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