

# THREE THINGS YOU SHOULD KNOW TO EFFECTIVELY USE FINANCIAL FORENSICS

From Books and Records to Bits and Bytes

Companies are generating more data than at any point in history, and this virtual mountain of information is growing by the second. When there is a question of risk or wrongdoing, organizations must now consider an Everest-size heap of electronic data that likely includes email, instant messages, texts, phone logs, and social media posts, in addition to financial transactions.

The good news is that companies can evaluate this data with impressive accuracy and comprehensiveness using financial forensics — technology and data science methods and tools to determine causation or quantify financial exposure from a business event.

Financial forensics tools — artificial intelligence, pattern recognition, and machine learning — are increasingly being embraced by corporate legal teams, yet many C-suite leaders still have questions about how these tools can help their organizations respond to business events.

## 1. FINANCIAL FORENSICS IS THE FUTURE

Today's companies can quickly identify trends across huge data sets — and in many cases, they need to. "It's often important to look across multiple data sources, rather than limiting review or analysis to a single source," says Rebecca Patterson, director with Navigant Consulting, Inc.'s legal technology solutions practice and advanced analytics leader. "This enables companies to have a complete understanding of the business issue when they determine how to proceed."

For example, machine learning can quickly spot patterns and link nonidentical records across data sets, a function that required extensive manual efforts and provided limited returns in the past. Machine learning algorithms can be used to quickly create accurate, interactive maps of metrics such as the number of customers, revenue, or other measures within a specific area.

"The new tools and technologies give organizations the ability to evaluate massive amounts of structured and unstructured data from multiple sources, which can enable them to quickly size up a problem, spot trends, and detect deviations from expected

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## ARE WE AT FAULT AND HOW MUCH IS IT GOING TO COST?

Determining cause of damages or evaluating financial exposure in the event of suspected wrongdoing is a common trigger point for executives to contact financial forensics professionals.

“Simply put, companies want to understand: What business transactions may be impacted by the practice? And, what is the possible magnitude of the issue?” says Mary Beth Edwards, managing director and practice leader of the commercial and healthcare disputes and forensics practice with Navigant.

Financial forensics methodology and tools allow companies and their leaders to comprehensively answer these questions — with speed, efficiency, and accuracy.

“A comprehensive review that includes all of the relevant data helps tell a complete story and results in an accurate understanding and estimation of the impact. As a result, companies can focus their spending and efforts on the most strategic and pertinent areas,” says Rebecca Patterson, director with Navigant’s legal technology solutions practice.

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behavior,” explains Mary Beth Edwards, managing director and practice leader of Navigant’s commercial and healthcare disputes and forensics practice.

Companies that use financial forensics can quickly and thoroughly evaluate what’s happening, prioritize critical issues, and minimize distractions and disruption to core business operations.

Angela Sabbe, director with the disputes and economics practice with Navigant, explains: “In the past, either because companies were still relying in some part on contemporaneous paper records or because they archived data to printed reports, we frequently took a sample, analyzed it, did time-intensive manual review, and extrapolated the results to the population.”

Now, companies have access to electronic data covering the entire period they are interested in analyzing. “Rather than relying on data entry, we can programmatically ‘scrape’ PDFs or extract data from semistructured reports to capture the information we are interested in analyzing,” Sabbe says.

## 2. EXPERTISE IS KEY TO RESOLUTION

Companies need to think broadly about what the real issue is, what pieces of data can clarify it, and what types of expertise they need.

“Companies should evaluate whether their internal team has the appropriate expertise to address the issue at hand *and* the bandwidth necessary to fully address it,” Sabbe says. “Companies often find it valuable to supplement their existing teams with external support.”

“Given the massive explosion in data generated by companies, it is critical to work with a team comprising not only financial, accounting, and industry experts, but also experienced data scientists,” says Sonya Kwon, managing director with the disputes and economics practice with Navigant. “Data scientists that understand the disparate information created by and technology platforms used by the companies can conduct robust analysis, and make sense of this data to help resolve issues for companies.”

Consider the following questions to help you assemble the right team:

- What type of financial discipline is needed to analyze the business problem?
- Does the issue require industry specialization and expertise?
- Are your electronic transactions stored in industry-specific data formats?
- What is the type and volume of data relating to the business issue? Does it involve many transactions; data that is fragmented across multiple systems or geographies; or data that may be difficult to access due to long time horizons?

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ANGELA SABBE, DIRECTOR,  
DISPUTES AND ECONOMICS

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### 3. YOU NEED TO UNDERSTAND THE DATA

Many investigations require a retrospective review spanning several years. For many companies, this can mean analyzing information stored in varying formats from different platforms, such as legacy systems or across multiple platforms of active systems (for multiple product lines, or businesses that span multiple geographies). The ability to aggregate, standardize, and analyze disparate data is essential to reconstruct a multiyear timeline and analyze financial impact.

“It’s important to consider what types of data are available, including but not limited to email, transactional, chat data, audio files, and social media, and what are relevant to the issue,” Patterson says.

Another concern is where the data is located. “If the data is cross-border or sitting outside of the U.S., companies need to create workflows to address data privacy issues,” she cautions.

How the organization stores its data for business operations may be different than the format needed to support a forensic analysis. “It’s important to have an expert that can capture all of the relevant data across the organization and time horizon, and organize it in an analytical data repository that enables longitudinal analysis,” Edwards says.

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MARY BETH EDWARDS,  
MANAGING DIRECTOR, DISPUTES AND ECONOMICS

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### LOOKING AHEAD

The data is out there and it’s growing. C-suite leaders and general counsel need to be up to speed on what they can learn from that data — and about their organizations — with financial forensics. Massive amounts of data can be quickly analyzed to evaluate patterns, causation, and anomalies, or quantify financial exposure. More importantly, financial forensics can help senior leaders make sense of what is happening within their organizations, identify problems, and inform effective decision-making.

“Leaders can achieve a 4-D view of their organization and what’s happening,” Edwards concludes.

Interested in more insights on key issues from our team? Additional articles in our six-part series are coming soon, including:

- **Class Actions:** Learn how data analytics and econometrics can help you evaluate typicality and commonality.
- **Financial and Fraud Investigations:** Find out how to supplant anecdotes with facts, bringing clarity to fraud investigations.
- **Data Breaches:** Gain a better understanding of best practices and key considerations for developing a data breach incident response plan.
- **Intellectual Property Matters:** Learn best practices for reconstructing a timeline.
- **Approaches to Damages:** Discover how artificial intelligence is transforming damage calculations and what this means for your company.

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### INDUSTRY SPECIALIZATION ELEVATES UNDERSTANDING

If your industry uses specialized nomenclature in business transactions, you need a team that understands industry terms and concepts in addition to data structures and file formats.

In the healthcare industry, many of the payment models require the use of five-digit current procedural terminology codes for the services performed, as well as specific business and clinical rules governing coverage. Financial analysts need to understand how an entity records revenue through its coding and billing procedures, and how payments are determined by the various payers.

Analyzing the order in which financial transactions post requires an understanding of industry regulations governing posting orders and other relevant data sources that may impact the accounts on either side of the transaction.

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