

Supply Chain Forensic Services

The Issue

The quest for enterprise growth and profitability can create persistent pressure upon companies to do more with less. As a result, many organizations are increasingly relying upon relationships with third-party vendors. These relationships have become progressively more complex as companies engage in more cross-border relationships.

A company's scrutiny of its supply chain relationships is particularly important in an era when both U.S. and foreign authorities are aggressively monitoring and enforcing anti-corruption laws. Failure to adequately and actively monitor supply chain relationships can substantially increase a company's risk of significant financial losses, as well as exposure to legal and regulatory investigations, civil and criminal litigation, and reputational damage.

Our solution

Deloitte's Supply Chain Forensic Services can help you establish or refine a highly effective supply chain risk monitoring and management program. With our relevant experience across a variety of industries, we can help you address the risks associated with third-party relationships and the potential damaging effects of fraud, waste, and abuse.

Our approach not only focuses on compliance with regulatory requirements and industry standards, but it also seeks ways to recover overpayments and other sources of profit leakage across your supply chain — money that can help improve profit margins and bottom-line performance. Traditional approaches often focus primarily on structured data analysis, such as transactional accounts payable

information. However, we reach beyond that by leveraging advanced text analytics and data mining techniques to uncover a wealth of information in unstructured data sources, such as invoices, emails, and other supporting documentation. By using an integrated dataset, including both structured and unstructured data, we can apply rules-based, inductive, and visual techniques to help clients identify potential indications of schemes or scenarios and develop models that depict or describe historical events.

Examples of typical work steps performed in conjunction with the client in a Supply Chain Forensic Services engagement include:

- Performing diligence and vendor risk analysis to identify possible related entities and areas of increased susceptibility to fraud
- Gaining a better understanding of vendors' operations, accounting controls, and financial reporting environment
- Conducting data mining and analytics procedures aimed at detecting and quantifying potential overspending in typical high-risk categories, such as labor, allocated or shared expenses, cost-plus transactions, and third-party pass-throughs.
- Assisting in the recovery of losses due to internal or external supply chain fraud
- Assisting in the development of processes and procedures for reducing the risk of profit leakage, fraud, waste, or abuse
- Assisting in implementing systems to help strengthen vendor relationships in an effort to reduce the likelihood and cost of litigation

The Supply Chain Forensic Services process



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Illustrative examples of prior work experience

- A large international energy company asked Deloitte for assistance in its investigation of more than \$6 billion in vendor payments. Our efforts involved developing an analytical platform that contained data from the company's ERP system and was supplemented by text-searchable invoices and line-item invoice data extracted from more than 9,000 contractor and subcontractor invoices. To facilitate analyses, we also added other sources of information, such as a tracking system for vessels employed by the company, data from claims filed against the company, and results of testing, research, and settlements. Forensic accountants and investigators performed analyses that focused on identification of potentially high-risk vendors, anomalous or erroneous billing, and other potentially recoverable expenses. Specific forensic techniques included vendor background investigations, queries of large datasets, detailed forensic accounting procedures, and employee and vendor interviews. The results included identification of duplicate invoices and line item charges, ghost employees, unsubstantiated billings, and other improper and potentially recoverable charges that the company was then able to pursue via commercial settlement negotiations. The project also involved assistance with litigation response requirements.
- A large consumer products company asked Deloitte for help in responding to whistleblower allegations of potential improprieties related to its procurement and billing practices for temporary labor, which involved a third-party vendor. We helped perform detailed background checks, business intelligence, forensic

interviews, data analytics, and various forensic accounting procedures. We used data analytics capabilities to develop and execute queries on the company's more than 20,000 individual invoice line items and the vendor's payroll data over a three-year period to help identify potential overcharges and other opportunities for potential recovery. Our forensic accountants traced a sample of data-analytic exceptions to source documents. In addition to confirming the alleged overcharges, we identified opportunities to implement new process controls to help monitor the accuracy of future invoicing by the company's temporary-labor vendors.

- Deloitte helped analyze allegedly excessive pass-through charges incurred on behalf of a \$500-million international disposable-products manufacturer by a third-party logistics provider according to a "cost plus" agreement. Our analysis revealed that in addition to charging its disposable-products client for time and materials that were not actually incurred for the client's benefit, the logistics provider was hoarding volume refunds from other third-party suppliers instead of using the refunds to offset costs invoiced to the client, as was ultimately determined to be appropriate.

Deloitte Difference

Our global team draws from the deep intellectual capital of Deloitte Touche Tohmatsu Limited member firms, comprising 172,000 professionals in 152 countries. We offer our clients access to specialists in forensic accounting, computer forensics, data analytics, and various industries in countries around the world to help respond to issues rapidly, wherever they may arise.

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