

PFIC



Paraben's Forensic Innovations Conference
Park City, Utah **November 8th-11th 2009**



Modern Techniques to Catch Financial Frauds

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Madoff's Ponzi Scheme



FACT: Bernard Madoff's ponzi scheme is the largest investor fraud committed by a single person.

QUESTION: What is a Ponzi Scheme?

ANSWER: According to Wikipedia: A **Ponzi scheme** is a fraudulent investment operation that pays returns to investors from their own money or money paid by subsequent investors rather than from any actual profit earned.

Madoff's Scheme Cont'



FACT: Madoff's client thought they were investing in funds. The funds' stated strategy was to buy shares, options, and other securities of large well-known corporations, and upon request of clients, return to them their profits and principal.

FACT: Madoff never invested any of his client's money.

QUESTION: What did he do with it?

ANSWER: Deposited the money into his business account at Chase Manhattan Bank.

Madoff's Demise



- FACT: SEC and Other Regulatory Authorities investigated Madoff Securities LLC at least eight times over a 16-year period. Markopolos and academicians raised concerns which were disregarded.

- FACT: December 2008, Madoff's sons alerted the Federal Authorities after he confessed to them that the investment advisory arm of his firm was a Ponzi Scheme.

- FACT: Madoff was arrested.

- FACT: March 2009, Madoff plead guilty to an 11-count criminal complaint of defrauding thousands of investors of billions of dollars.

- FACT: Sentenced to 150 years in prison.

Lessons Learned



- Deficient recordkeeping/ falsification of books and records
- Inadequate controls
- Inattention to details
- Misstatements to regulators/auditors
- Fraud
- Unrealistic rate of returns in spite of an economic recession

What Can We Do?



- Authenticate Information
- Corroborate Stories
- Conduct Due Diligence
- Develop Internal Procedures
- Set the Tone

How We Can Do It



Authenticate Information

- Request Third Party Documentation
- Verify Account Numbers and Balances
- Verify Social Security Numbers

How We Can Do It Cont'



Corroborate Stories

- Interview Team Members
- Contact Former Employees
- Interview Auditor/ Bookkeeper

Conduct Due Diligence

- Media
- Real Property
- Education
- Litigation
- Bankruptcy, Judgments & Liens
- Uniform Commercial Code
- Political Contributions
- Patents & Trademarks

How We Can Do It Cont'



Conduct Due Diligence

- Board Affiliations
- Corporate Affiliations
- Incorporation Records
- Regulatory History
- Subsidiaries & Franchises
- OFAC Sanctions Screening
- Internal Watch Lists
- International Government Sanctions Lists
- Government Watch Lists

Develop Internal Procedures

- Ensure that the policies and procedures clearly document the processes including, but not limited to, any recordkeeping requirements, verification methods, and handling red flags and suspicious activity.
- Policies and procedures should be realistic and relevant to the current regulatory environment as well as your firm's business. Thus, they should be updated and revised when necessary.

Set the Tone

- Strong Leadership Message

Senior management should communicate the importance of compliance with regulatory and internal requirements to protect the company as well as its clients.

- Top to Bottom Approach

Employees on all levels should invest efforts into and be held accountable for compliance and risk management processes.

QUESTIONS?

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"I'm the skirt that digs for dirt!"



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