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"Efficiency is doing things right; effectiveness is doing the right things."
- Peter Drucker

"There are two types of companies in the US; those that have been hacked by the Chinese and those that don't yet know they have been hacked by the Chinese."
(FBI Director James Comey)

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Who to Call: Authorities or a Financial Forensic?

Calling in the Authorities – An experienced financial forensic professional plans every engagement with attorney support in mind. Litigation and criminal prosecution requires accredited, recognized investigative and legal testimony expertise with the acumen to present technical and complex transactions to authorities in concise terms.

The time to call in the authorities is after an accredited financial forensic team has provided a thorough investigation and analysis. This has many benefits including:

- No surprises – the company has been given full disclosure
- Specialized Professional Support – impeccably documented processes and findings
- Access to direct line of inquiry
- Ability to lay out a presentation of facts
- Reduce cost of litigation

Could it be Time to Bring in a Forensic Accountant? – White-collar crime is significantly on the rise and is becoming increasingly difficult to identify and effectively respond to. The most recent FBI's Financial Crimes Report cites a steady rise in securities and commodities frauds as investors seek alternative investment opportunities. This spawns the development of new conspiracies such as, securities market manipulation via cyber intrusion, the increase in commodities fraud, the continued rise of Ponzi schemes, and foreign-based reverse merger market manipulation schemes. The report also states that one of its highest priorities is corporate fraud investigation. This includes:

- Falsification of financial information of public and private corporations
  - o False accounting entries and /or misrepresentations of financial condition
  - o Fraudulent trades designed to inflate profit or hide losses
  - o Illicit transactions designed to evade regulatory oversight
- Self-dealing by corporate insiders

What's Happening with Lakelet this Quarter?

July 29- The Lakelet Financial Forensics team has joined the Buffalo chapter of the Claims & Litigation Management Alliance and will attend the summer networking event on the Moondance cat. The Claims and Litigation Management (CLM) Alliance is the only national organization created to meet the needs of professionals in the claims and litigation management industries.

Lakelet Financial Forensics Group hired Nicole Karchensky as an associate. Ms. Karchensky will assist in investigating and identifying financial weaknesses for its clients and creating strategic solutions to solve those clients problems.

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Lakelet Advisory Group LLC
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NEWSLETTER
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Half-Year Scorecard - Why Wait for December 31st?

Does it sometimes feel as if you're spinning your wheels? You set ambitious goals in the new year and now we're well into the second half of the year and those goals are starting to look way out of reach. Don't panic. What you need is a half-year assessment. Forty-six percent of this type of business plan has materially changed the path of the business after six months. These changes are so pervasive that making this type of the business plan a continual practice may be warranted. Take advantage of the calendar and readdress the position of the company vs. the goals previously set. These changes can potentially be for the better (exceeding the goals) or for the worse (major disruption or not achieving the goals) — not having a formal strategic plan is the worst situation to be in. *Failure to plan is a pan for failure.*

Financial reporting and analysis are retrospective processes, so why wait until the end of the year to assess results and drive growth? Generally, year-end results are not available until late in Q1 of the following year, and relying solely on this data does not allow the organization the opportunity to assess performance on a proactive, continuous improvement basis. ***Strategic Continuous Improvement (CI) requires an accurate set of measurement / metrics and financial information – the information need not be annual, semiannual, rolling 12 months, or even quarterly. The key is timely, accurate information from which to gauge your progress and determining where alternations may be beneficial.***

Furthermore, it is imperative for management to understand how their organization performed during the first half of the year. Traditional revenue and cost analysis continues to be a rudimentary measurement of profitability. Other metrics such as EVA, foot traffic, production by labor hour, sales calls to clients and other metrics provide the underlying yardstick for performance measurement. The key is to preview—don't just review—performance. Additionally, when going through the process, focus on strengths, set challenging goals, and make it a productive exercise.

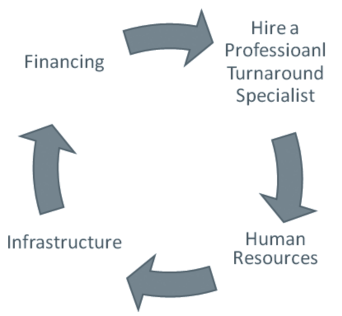
Entrepreneurs tend to be optimists in nature. Believing the next quarter is "THE QUARTER." Placated by theories that improvement is around the corner, these reactions just stave off the admission that outside intervention is necessary. Attaining the acceptance of this will give the objectivity to take action. Objectivity is also critical in evaluating procedures and processes when there is not a crisis on the horizon. A fresh set of eyes providing an independent review should include benchmarking against like companies, industries and geographic location. And it should be performed by professionals with operational expertise and financial acumen.

Businesses that have an organizational-wide buy-in of strategic objectives are among those that thrive. A realignment of priorities to instill a collaborative understanding of performance measurements may be necessary. A period of flat production is an opportunistic time to shed holdouts unwilling to accept change. Communication of performance results - the results of the organization as a whole - along with clearly defined benchmarks and milestones provides motivation and increased efficiency. Performance efficiencies attained during slow-growth periods should be accomplished during periods of expansion and increased production.

A half-year scorecard provides for financial and non-financial metrics from internal and external perspectives. Benchmarking is the yardstick to evaluating key performance measurements. This is especially true when budget to actual measurements are outliers on the scale of predictable results. Year-end analytics, even those that are prepared on a quarterly basis, are not providing the information when it is needed. A year-end analysis to communicate that milestones were not met, invites justifications rather than providing for innovation and a learning opportunity. A half-year scorecard will provide timely information that can be utilized to produce solutions while they are still pertinent.

Factors for Consideration in a Turnaround

Engaging a Specialist – The service fee of an experienced, accredited turnaround specialist is a direct cost, which may seem daunting to a company in times of distress. Be assured this cost is quickly recovered. An experienced turnaround specialist will have the expertise and resources to provide valuable insight quickly. Through investigation, analysis, and short-long term strategic planning the company will receive the tools necessary to ensure the best possible outcome.



The cost of interim executive management personnel (change management) may be significant, however, it is unreasonable to expect existing management, whom are trained and experienced at running the company, to have the time or qualifications to manage a sustainable turnaround operation. Even if incumbent managers are willing to implement changes, they often lack the objectivity to do so. It is vital to empower an independent professional that will look at the overall situation to identify inefficiencies, analyze the vitality of the business, instill a change in culture, and provide for an unencumbered strategic plan to recovery.

Human Resources – Human resources are the core to success. Employees must feel empowered and vested in the company's overall objectives. A trait that distressed companies share is the loss and cost of replacing valuable employees that would have been crucial to change management. Losing leaders, who embrace change and would instill confidence of success and drive productivity, is costly and time consuming. It is important to bring in change management before this turnover takes place.

Productivity must be measurable and value-added. The cost of administration and support staff, such as IT, HR, and maintenance, must be tied to their contribution to the overall objective of the company. Turnaround costs include establishing the measurement of success, training employees to add value, and implementing measures to maximize productivity. This stresses the importance of employees who are retained and whom must be empowered to provide continuous improvement.

Conversely, employees who are released should be treated equitably. This is important to the cost of re-building customer relationships and retained employee confidence. Legacy costs are an insurmountable burden for many long lived companies. Accordingly, the cost of benefits, including healthcare and pensions should be evaluated to ensure the benefits meet the needs of the employees and are sustainable and cost-effective for the company. This may include the cost of benefits analysis for large, complex plans, as well as the cost of labor negotiations.

Infrastructure – Manufacturing and IT infrastructures are evolving on a continuous basis. Many distressed companies have a history of deferred maintenance and acquisition of updated equipment. This creates a situation where cost of production, sales, and administration prevents a competitive advantage resulting in the loss of sales and deteriorating gross profit. Typical costs of recovery for distressed companies include capital investment in new technologies and systems to match production levels and quality.

Financing – For change management, an initial challenge for planning for capital investment can be securing financing to meet the short-term operational needs of the company. An advantage to the company is that their existing banks and creditors have a history and may be willing to provide loans and advances.

Ways to provide prompt positive cash flow would be to factor in receivables, restructuring debt, related party financing, negotiating credit terms with suppliers, and the sale of nonessential assets. Other methods to afford short-term cash flow release include furloughing employees, deferring maintenance, forgoing professional services, and deferring employee benefits. The employment of these measures and the costs of each will vary depending on the characteristics and degree of the distressed company. Making sound, objective, strategic decisions with regard to financing is critical. This involves a debt to equity analysis, and customarily requires an equity investment commitment.

Garnering private equity interest requires the commitment to change and the ability to show quantifiable, tangible turnaround results. Empowering the turnaround expert with the authority to make decisions and implement change is paramount to a company's ability to succeed. Change management must be enabled with the ability to engage a team that has established business relationships with attorneys, investment banks, and private equity firms. An accredited turnaround specialist will have the requisite forethought to anticipate the demands of an outside investor. This is also pertinent in planning a strategic transaction, in which the company or business components are sold.

Who to Call: Authorities or a Financial Forensic?

Financial forensics perform financial investigations, provide analysis, support litigation and / or prosecution, and report their findings to the counsel, company officers and /or the board. Financial Forensics is often referred to as "the art and science of investigating people and money." Contrarily, legal and regulatory authorities perform investigations focused on enforcing laws and regulations and they are generally internally accountable for enforcement. The table below illustrates key distinctions between financial forensic and legal / regulatory authorities.

Financial Forensic Professional	Legal / Regulatory Authorities
Litigation and Legal Support	Criminal and Regulatory Enforcement
Company's Best Interest is Served	Public Interest is Served
Confidentiality of Sensitive, High Profile Engagements	Public Record / Disclosure
Protect Brand Awareness and Company Reputation	Information Available for Interpretation / Manipulation
Breach of Contract, Commercial Damages, Shareholder Disputes	No Civil Action Support

Legal and regulatory authorities can and will investigate wrongful acts; but their objective is to enforce the law, and for a number of reasons, this may not align with the organization's main concerns. For this reason, notifying or seeking assistance / relief from authorities prior to knowing all the facts and circumstances may result in an unwelcome outcome.

Publicity / Brand Protection – Primarily an organization may hesitate to call the authorities for fear of bad publicity. If an allegation is not handled correctly, the organization can be negatively associated with the occurrence in question, damaging its reputation and degrading its brand. Moreover, the company can be forced into a defensive mode from attacks by the accused.

When unsupported accusations reach the press they become amplified. Even if accusations are later absolved, the negative connotation will forever surround the organization's reputation. Engaging an experienced financial forensic professional that has the skill and resources to perform a discreet investigation and report the results to the appropriate personnel, provides assurance that factual information is provided to the appropriate people. Obtaining impeccably documented evidence of the actions of the perpetrator before suspicions are disclosed is a means of taking control, directing the focus of remedial actions, and securing the best possible outcome for the organization.

Tipping-Off the Adversary – Premature disclosure provides a potential fraudster advanced warning of investigation allowing them time to destroy evidence or create false leads. A financial forensic professional can access records remotely and surreptitiously, and has the expertise to focus on the financial unknown as well as analyze discovery. Authorities also have investigative experience; however, only specialized units have the requisite financial expertise. Engaging a team of accredited financial forensic professionals and criminal investigation experts provides for the financial expertise and the criminal investigative credentials to ensure the best chance of restitution and/or prosecution. Partnering with a financial forensic professional communicates to would-be fraudsters that the organization will pursue its best interests to the fullest extent, which is an effective deterrent to potential future losses.

Discovery of the Financial Unknown – The company may not be aware if there is wrongful act in play within their own organization. They may be a victim of loss from theft of trade secrets, costing models, or intellectual property. Incidents that may be legitimized include stagnant or declining sales, loss of bided projects, unexplained increase in cost of manufacturing, or a myriad of other problems. Through investigation it is frequently found that the original concerns are indicators of underlying issues. In many cases misconduct can be tied to an individual. This is when having a financial forensic expert can prove most useful, as they do not have a personal bias when reviewing the evidence. Unsavory activity has often been going on far longer than would have been suspected.

A financial forensic expert, focused on providing tangible value, will provide a risk assessment and mitigation plan. Engaging a team with the resources to perform eDiscovery, cyber-security, benchmarking, and investigative analysis is paramount to uncovering all financial unknowns.

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