

## How to conduct a Fraud Investigation

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Step	Actions	Consider
1	<p><b>Assessment:</b> What type of fraud are you dealing with? Would it be best to refer what you know right now to a law enforcement agency?</p>	<p>Risks of evidence contamination or destruction; Internal ability to deal with what might be a complex set of financial transactions.</p>
2	<p><b>Risk Management:</b> Assuming you will conduct the investigation, now consider if the risk of the fraud continuing is possible? Is the suspect person (possibly a staff member) still working there, or if not, is it possible for the fraud to continue if action is not taken?</p>	<p>How can you eliminate the risk without damaging the investigative process? Can you transfer the suspect into another area and close their opportunity off, should they be suspended or if appropriate, terminated (you would require strong evidence to terminate immediately)</p>
3	<p><b>Collect Evidence:</b> Quickly and as discretely as possible collect all the evidence you need, and think laterally, outside the box. What you collect now might be useless later, however if you did not collect it and it later vanishes, then you may regret not thinking broadly enough.</p>	<p>Being discrete is essential. During the early stages of an investigation you may not know who is involved, how many or who can be trusted. Only consult with other staff when you have exhausted every avenue of inquiry. For example, you cannot obtain financial statements without requesting them from a manager; they are not available to you in any other way.</p>
4	<p><b>Know the process:</b> To effectively conduct a fraud investigation you must first know how it was committed. Learn how the system or systems work that has allowed the fraud to occur. If for example the fraud relates to a stock market manipulation, then knowing what statements were made public and the timing of trading activities is critical. If you are tracking a series of financial transactions that appear to have been genuinely approved, however to companies that were set up by the offender, then you will need to understand the entire approval process, payment process and how the offender managed to establish his/her companies as vendors etc.</p>	<p>Whilst you are learning how a system or process works, make note of any lapses in security, or oversights you detect.</p> <p>There are reasons why fraud can be committed; if they are not because people fail to be vigilant then it is because of system failures, or both.</p> <p>Unless these failings are dealt with there a real and imminent risk of further frauds.</p>
5	<p><b>Organise the evidence:</b> As you collect evidence and gain an understanding of how the fraud was committed you should organise it sensibly, probably in a chronological order. Assuming you get to an interview with the offender, you will want to be able to present your evidence in a systematic and logical</p>	<p>If you are not organised you will miss things – overlook the importance and sequencing of evidence and can allow a sophisticated and confident offender to confuse you or defend the situation.</p>

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	order, each piece of the puzzle forming a picture as you move through the evidence.	
6	<b>Follow the money:</b> Fraud involves money or property that can be exchanged for money. As it moves from one place to another it leaves a trace. Make sure you exhaust your internal resources to know how the money or property went from where it was to where it ended up. Each piece of the transaction is another piece of evidence.	The point of this exercise is to identify who was involved, directly or indirectly and where the money or property ended up. It might also help you recover some or all of the loss.
7	<b>Plan your interview:</b> Conducting a fraud interview can be complex and exhausting, particularly if you are dealing with a sophisticated confidence person (which is where the term con man comes from). To combat this you must be prepared, know your subject and be ready for any scenario.	Try to anticipate the types of answers you might get to your questions, have a plan and the evidence to support it, negate any defences or arguments you know not to be true.
8	<b>Follow up:</b> After your interview you may have more tasks to follow up on. The offender may have told you about issues you were not aware of, other persons involved or provided you with defences, some of which might just be smoke screens. You will need to assess each one of these independently, then deal with each of them. If you don't believe some claims should be followed up, file note your decision and the reasons why you chose that path.	Never allow comments to go untested. During an interview, if a person suggests other staff are involved, then question them until you are satisfied that this is either true or was nothing more than a blame shifting exercise.
<b>If you are not able to conduct an interview, then skip steps 7 and 8.</b>		
9	<b>Draft your report:</b> Find or develop a professional template which provides you with the headings/topics etc you will need to argue the case. Remember you are the investigator, ensure your report is impartial, not emotive and not biased. If you are conducting an internal (not criminal) investigation, then your standard of proof is the civil standard (balance of probabilities), however if you are doing this with a view to a criminal prosecution, then the standard of proof is beyond a reasonable doubt. Before submitting your report have a trusted colleague (remember your confidentiality requirements) read through it and provide you with constructive feedback.	The rules of evidence are important, however critical in a criminal investigation. Continuity of evidence is essential – you must be able to demonstrate a chain of continuity regarding how evidence came into your possession. Criminal investigations also require persons that are accused of crimes to be warned before they speak about a matter. Internal fraud investigations which are directed towards disciplinary outcomes, require natural justice and procedural fairness to be followed, but <b>do not</b> carry the same impositions as criminal matters. Employees are obligated by virtue of their employment contract to cooperate with investigators.
10	<b>Identify systemic issues:</b> Fraud occurs because of system failures, weaknesses or by staff complacency, or a combination of all or some of these issues. If they are left intact, the same issues will allow a repeat of the same fraud.	Identify how a fraud was committed and what you would recommend by way of improvements to reduce or eliminate the risks.