CONDUCTING INTERNAL INVESTIGATIONS,
INTERNATIONAL EDITION

Association of Certified Fraud Examiners

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I. PREPARING FOR AN INVESTIGATION

When Is an Investigation Necessary?

The need for an internal investigation can arise in a number of circumstances. Obviously, internal investigations might be necessary to determine the source of losses caused by fraud. A thorough investigation in these circumstances can enable a company to reduce its losses, identify the perpetrator, gather evidence for a criminal prosecution or civil trial, and recapture some or all of its losses. It can also identify weaknesses in the company's control structure, thereby helping to strengthen the company's internal defenses against future employee misconduct.

In addition to preventing losses due to fraud, an organization or its officers might have legal duties to investigate alleged misconduct. Certain laws are specifically aimed at detecting wrongful conduct and require that companies report specific instances of misconduct. Obviously, to make an accurate report of misconduct, the management will need to investigate alleged wrongdoing. Regulatory agencies require accurate financial reporting by the companies they oversee, and they have the power to impose penalties for reports that are inaccurate or omit facts that could affect the accuracy of the reported information. An investigation can ensure that all relevant facts are known and reported.

Generally, officers and directors of companies are also bound by duties of loyalty and reasonable care in overseeing the operations of their companies. This means they must act in the best interests of the company and take reasonable steps to prevent harm that the company might suffer as a result of employee misconduct. In some jurisdictions, the failure to investigate reliable allegations of misconduct can amount to a violation of this duty, thereby subjecting the director or officer to civil liability for any damages that the company incurs as a result of the failure to investigate.

In many situations, companies must also conduct an internal investigation before they can dismiss an employee who has committed fraud or otherwise violated company rules and policies. A thoroughly documented investigation will help insulate the company from charges that the employee was discriminated against or otherwise wrongfully terminated.

Where an organization might be liable for the conduct of one of its employees, an internal investigation can help mitigate the company's liability by stopping the wrongful conduct before it is allowed to grow, and by demonstrating that the company has an effective program to detect and prevent criminal misconduct by its employees—a factor that might provide for the diminishment of fines in some jurisdictions.

These are only some of the reasons that a company might choose or be compelled to conduct an internal investigation. The remainder of this section is devoted to explaining when an investigation is called for, and how an organization can prepare itself to not only uncover the facts and evidence that are

necessary to fulfill the purpose of the investigation, but also avoid the numerous legal pitfalls that await the unprepared company.

Video

In the video titled "Know Your Objective," anti-fraud expert Gerry Zack, CFE, CPA, CIA, explains the importance of knowing your objective when beginning a fraud investigation. Mr. Zack is the founder and CEO of RiskTrek LLC, a consulting firm specializing in compliance, fraud, auditing, and evaluating risk. (Go to [redacted] to view the video.)

Employer's Duty to Investigate

When there are signs or suspicions of employee wrongdoing, the employer—and the fraud examiner—face two related questions: (1) whether to conduct an internal investigation of the alleged wrongdoing and (2) whether to voluntarily disclose the results of that investigation to law enforcement or other government agencies. The decision to disclose the results of an investigation is not always voluntary. In some circumstances, companies are required by law to report wrongdoing by their employees or officers. This section addresses some of the legal duties and other factors that companies should consider in deciding whether to conduct an internal investigation. Issues relating to voluntary disclosure of the results of an internal investigation and the employer's right to keep an investigative report confidential are covered later in this workbook.

It might seem incongruous to speak of an employer's duty to investigate. After all, if an employee is stealing or otherwise behaving dishonestly, why would an employer need to be compelled to investigate? Wouldn't the company want to investigate so that it could stop the thefts, ideally recover its losses, and take steps to prevent the illegal conduct from recurring? Conducting a thorough internal investigation can result in several obvious benefits, but adverse consequences can arise as well. When a company is a victim of employee misconduct, and when that misconduct becomes public, it can potentially harm the company beyond the immediate losses from the theft itself.

As a result of public disclosure, the company might face its own criminal or civil liability or administrative fines because of an employee's misconduct for which it is legally responsible. Even if the misconduct is already public knowledge and a criminal or civil proceeding has begun, the internal investigation might have an adverse effect on the victim company. The results of the internal investigation may be subject to discovery in a civil or criminal case. Thus, by conducting an internal investigation, a company might unintentionally provide outside investigators with previously unknown evidence that could be used against the company.

Public disclosure of internal fraud can also subject a company to a number of adverse financial consequences, such as the loss of collateral business or trading partners, the loss of government licenses

necessary for certain regulated activities, or a decline in the value of publicly traded equities. The directors of a corporation might face liability to their shareholders for the losses resulting from the misconduct or for any collateral consequences that result (e.g., fines or other civil liability imposed on the company). These are all factors that can incline a company to avoid knowledge of harmful facts.

Conversely, there are legal duties and requirements that might outweigh a company's desire to ignore an employee or managerial offense. Many companies are required to monitor and report specific kinds of regulated transactions to various government agencies. For instance, in some jurisdictions, financial institutions must file reports with the government when they suspect insider abuse by an employee. Furthermore, the officers and directors of corporations are generally bound by legal standards of due care and loyalty in conducting company business.

A company's managers might find that the best way to fulfill these legal duties and requirements is to conduct an internal investigation of known or suspected misconduct. Put another way, by failing to adequately investigate, a company might not be complying with the law. Note that the decision of whether to investigate is often very fact specific, and whether an investigation is compelled by some other legal duty or requirement is best answered by the company's lawyer(s) in consultation with senior management and after a consideration of all the relevant facts.

The remainder of this section reviews the most common legal duties and requirements that might compel or motivate a company to conduct an internal investigation.

Video

In the video titled "Continuous Monitoring," anti-fraud expert Gerry Zack, CFE, CPA, CIA, explains the importance of both fraud awareness and effective continuous monitoring. (Go to [redacted] to view the video.)

Statutory Disclosure Requirements

As previously stated, several factors go into determining whether a fraud investigation should be performed. One of the most deciding factors is whether an applicable law would require an inquiry into the fraud or a disclosure of known fraud to a government agency. If a law imposes such a duty and the company fails to comply, severe penalties might result. Depending on the jurisdiction, several laws might impose disclosure requirements on businesses, including:

- Monitoring and public reporting statutes
- False statement statutes
- Legal duties to a company and its shareholders
- Accountants' and auditors' duties to investigate
- External auditors' duty to investigate

Monitoring and Public Reporting Statutes

In most jurisdictions, there are a number of statutes and regulations that impose on companies the duty to monitor themselves, file accurate reports and statements, and keep accurate records. Generally, these laws do not explicitly require companies to conduct internal investigations; however, there might be an implied duty to investigate internal wrongdoing in order to ensure that a company meets its disclosure requirements (i.e., that its filings are accurate or that it has taken appropriate steps to self-monitor).

For example, in many jurisdictions, public companies are required to file accurate financial information with the government. Assume that, after a company files its annual financial report, management determines that a massive fraud might have caused a significant overstatement of the company's revenues. Since management has learned that it filed inaccurate information, it might be required to do whatever is necessary to correct the inaccurate information. This would generally require the company to investigate the fraud and file corrected reports. Therefore, the company is, in effect, required to conduct an inquiry or investigation even though the law might not specifically state so.

Many jurisdictions have statutes and related administrative regulations that impose monitoring, recordkeeping, and reporting requirements on companies. Under these statutes, a company might have an express or implied duty to investigate internal wrongdoing.

Some laws, such as the U.S. Foreign Corrupt Practices Act and the UK Bribery Act, are aimed at detecting and disclosing specific wrongful conduct (e.g., bribery of foreign officials). Besides specifically prohibiting corrupt payments, these statutes require that companies:

- Keep accurate recordkeeping concerning subject transactions.
- Report findings of specific misconduct.
- Establish appropriate procedures to prevent and limit the offending conduct.

Other laws, such as securities and banking statutes, do not mandate reporting of specific forms of misconduct, but instead require companies in certain regulated industries and activities to prepare and file accurate financial statements and public reports (such as prospectuses, proxy statements, and annual reports) concerning a company's affairs. These reporting requirements carry with them an implied duty to report certain forms of wrongdoing.

Companies subject to such monitoring and reporting statutes must take steps to avoid omitting or inaccurately reporting facts (including incidents of internal misconduct) that might affect a statement's accuracy. Violations of these public reporting statutes do not always require fraudulent intent or willful falsification. Furthermore, these statutes might be violated not only when management knows of reportable misconduct and fails to report it, but also when it has indications of possible wrongdoing that it does not disclose.

Under these monitoring and reporting statutes, a subject company's duty to disclose—and therefore to investigate—typically pertains to facts that are material to the financial statement or other public report. Determining what is material for purposes of these statutes can be complex and is beyond the scope of this course. Legal counsel should be consulted in such cases.

False Statement Statutes

Many jurisdictions have laws that that outlaw the submission of false or fraudulent statements in connection with regulated activities. For example, there are laws that prohibit false statements made in connection with securities transactions, government contracts, and health care claims.

Most of these statutes require proof of fraudulent intent or a knowing or willful falsehood. Typically, an inadvertent or careless misstatement or omission, even if material, will not cause the company to be criminally liable. Nevertheless, a court could conclude that willfully ignoring strong indications of employee or management misconduct, which results in false or misleading representations, is evidence of criminal intent. Accordingly, when faced with a reasonable indication of possible misconduct by an employee, it might be advisable to investigate the incident to avoid potential liability.

Legal Duties to a Company and Its Shareholders

A duty to investigate might also arise from laws that set forth the duties that directors and officers owe to their corporations. An internal investigation of known or suspected employee misconduct might be required to fulfill a director's or officer's duty to act in the company's best interests. For example, if financial losses to the company could be avoided or minimized by an investigation, then the director or officer might be required to investigate under the duty of care the director or officer owes to the company. Similarly, if an investigation would have enabled the director or officer to implement measures to prevent the wrongdoing, or to realize a substantial recovery of the losses, a duty to investigate could be inferred.

A director or officer who violates these standards of conduct might incur liability to the corporation. Furthermore, in some jurisdictions, directors who fail to investigate possible wrongdoing—and therefore fail to detect and prevent or mitigate the wrongdoing—can be held personally liable to their corporations for losses or fines that are incurred by the corporations resulting from the wrongdoing.

Some jurisdictions might require a company to conduct an internal investigation before it can terminate an employee for theft, fraud, or other misconduct. In the view of some courts, a company must demonstrate evidence of an employee's wrongdoing to terminate that employee; it is not enough to rely on the company's own good faith belief that the employee has acted improperly. To gather the requisite proof, the company in this scenario will need to conduct an adequate investigation into the suspected misconduct. See Chapter VI, "Legal Considerations in Internal Investigations," for further discussion of discharging employees.

Finally, failing to investigate known or possible wrongdoing within the company can lead indirectly to violations of other statutes. For example, the tax law in the United States prohibits the deduction of illegal expenses, such as payments to foreign officials that violate the Foreign Corrupt Practices Act (FCPA). If a company deducts payments to foreign officials and those payments turn out to be prohibited by the FCPA, the company could incur liability for tax law violations. Similarly, if an employee makes corrupt payments to government officials that give the company an unfair competitive advantage, this could subject the company to liability for antitrust violations. These potential liabilities can be avoided by investigating known and suspected wrongdoing when it occurs so that managing officers and directors are fully informed of all relevant facts.

Accountants' and Auditors' Duties to Investigate

Internal Auditors

The Institute of Internal Auditors (IIA) has developed the *International Standards for the Professional Practice of Internal Auditing*. This section contains a description of those IIA standards that pertain to the internal auditor's responsibilities for preventing and detecting fraud within an organization. Additionally, because an organization's ethical tone is a vital component of its fraud prevention program, the IIA standards relating to responsibilities for ethical culture are discussed. More detail on these and all other IIA standards can be found on the IIA's website (www.theiia.org).

Internal auditors should be aware of the IIA's standard 2120.A2 on risk management, which states, "The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk." In addition, internal auditors should look to the following practice guides, which cover the internal auditor's responsibilities to deter, detect, investigate, and report fraud:

- *Internal Auditing and Fraud,* Third Edition (www.theiia.org/en/content/guidance/recommended/supplemental/practice-guides/global-practice-guide-internal-auditing-and-fraud)
- *Engagement Planning: Assessing Fraud Risks* (www.theiia.org/en/content/guidance/recommended/supplemental/practice-guides/engagement-planning-assessing-fraud-risks)
- *Auditing Anti-Corruption Activities,* Second Edition (www.theiia.org/en/content/guidance/recommended/supplemental/practice-guides/auditing-anti-corruption-activities)

FRAUD DETECTION

Detection consists of identifying fraud indicators that warrant an examination. These indicators might arise as a result of controls established by management, tests conducted by auditors, and other sources—both within and outside the organization.

Internal auditors' responsibilities for detecting fraud during audit assignments include:

- Considering fraud risks in the assessment of control design and determination of audit steps to perform—While internal auditors are not expected to detect fraud and irregularities, they are expected to obtain reasonable assurance that business objectives for the process under review are being achieved and that material control deficiencies—whether through simple error or intentional effort—are detected.
- Having sufficient knowledge of fraud to identify red flags indicating that fraud might have been committed. This knowledge includes the characteristics of fraud, the techniques used to commit fraud, and the various fraud schemes and scenarios associated with the activities being reviewed.
- Being alert to opportunities that could allow fraud, such as control weaknesses. If significant control weaknesses are detected, additional tests conducted by internal auditors should be directed at identifying other fraud indicators. Some examples of indicators are unauthorized transactions, sudden fluctuations in the volume or value of transactions, control overrides, unexplained pricing exceptions, and unusually large product losses. Internal auditors should recognize that the presence of more than one indicator at any one time increases the probability that fraud has occurred.
- Evaluating the indicators of fraud and deciding whether any further action is necessary or whether an investigation should be recommended.
- Notifying the appropriate authorities within the organization if a determination is made that fraud has occurred in order to recommend an investigation.

INVESTIGATION OF FRAUD

The role of internal audit in investigations should be defined in the internal audit charter and in the fraud policies. For example, internal audit might have the primary responsibility for fraud investigations, might act as a resource for investigations, or might be required to refrain from involving itself in investigations (because it is responsible for assessing the effectiveness of investigations). Any of these roles can be acceptable as long as the impact of these activities on an internal audit's independence is recognized and handled appropriately.

To maintain proficiency, fraud investigation teams have a responsibility to obtain sufficient knowledge of fraud schemes, investigation techniques, and laws. There are national and international programs that provide training and certifications for investigators and forensic specialists.

If an internal audit is responsible for ensuring that investigations are conducted, an investigation can be conducted using in-house staff, outsourcing, or a combination of both. In some cases, non-audit employees of the organization can also assist in the internal audit.

It is often important to assemble the investigation team without delay. If the organization needs external experts, the chief audit executive should consider pre-qualifying service providers so the external resources are available more quickly.

In companies where the primary responsibility for the investigation function is not assigned to internal audit, auditors might still be asked to help gather information and make recommendations for internal control improvements.

REPORTING FRAUD

Fraud reporting consists of the various oral or written, interim, or final communications to senior management or the board of directors regarding the status and results of fraud investigations. Reports can be preliminary and ongoing throughout the investigation. To document the findings, a written report might follow any oral briefings made to management and the board of directors.

Section 2400 of the *International Standards for the Professional Practice of Internal Auditing* provides that internal auditors must communicate the results of their engagements. Additional interpretive guidance on reporting fraud internally follows:

- A draft of the proposed final communications on fraud should be submitted to legal counsel for review. In cases where the organization can invoke client privilege and has chosen to do so, the report must be addressed to legal counsel.
- When incidents of significant fraud or erosion of trust have been established to a reasonable certainty, senior management and the board of directors should be notified immediately.
- The results of a fraud investigation might indicate that fraud had a previously undiscovered adverse effect on the organization's financial position and its operational results for years for which financial statements have already been issued. Senior management and the board of directors should be informed of such a discovery.
- A written report or other formal communication should be issued at the conclusion of the investigation phase. It should include the basis for beginning an investigation, time frames, observations, conclusions, resolutions, and corrective actions (or recommendations) taken to improve controls. Depending on how the investigation was resolved, the report might need to be written in a manner that provides confidentiality to some of the people involved. The content of the report is sensitive, and it must meet the needs of the board of directors and management while complying with legal requirements and restrictions and company policies and procedures.

External Auditors

Although this workbook focuses on internal investigations, those who investigate fraud will frequently deal with outside investigators or with external auditors. These individuals might participate in the actual investigation of internal misconduct, or, in the case of external auditors, they might be the ones who uncover the misdealing. The duties and responsibilities of external auditors vary by jurisdiction. In addition, there are international standards governing external auditors, including the International Standards on Auditing (ISAs), which are issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants, and Principles for Auditor Oversight, which are issued by the International Organization of Securities Commissions.

Planning the Investigation

The text up to this point has focused on the considerations that precede an investigation, such as the duty of auditors and accountants to seek out fraud and the duty of a company to undertake an internal investigation of suspected fraud or other wrongdoing. Once the decision is made to pursue an investigation, the focus shifts to determining how the company can carry out the investigation in the most efficient, effective manner. The answer to this broad question requires answering two smaller questions:

- Who will be involved in the investigation?
- What will be the investigative strategy?

Video

In the video titled "Planning the Investigation," anti-fraud expert Leah D. Lane, CFE, explains some factors to keep in mind when preparing for an investigation. Ms. Lane is Director at SunHawk Consulting, LLC, where she manages a group of investigators with global responsibility. (Go to [redacted] to view the video.)

Selecting the Investigation Team

Internal investigations of fraudulent activity usually require a cooperative effort among different disciplines. Auditors, fraud examiners, lawyers, security personnel, and others are all frequently associated with internal investigations. When choosing an investigation team, it is critical to identify those who can legitimately assist in the investigation and those who have a legitimate interest in the outcome of the investigation. These persons should be included on the investigative team, and all other personnel should be separated.

There are several reasons for this. First, the more people involved in the investigation, the greater the chance that one of those individuals might be somehow implicated in the fraud itself, or that one of those individuals might leak confidential information about the investigation. Second, the people involved in the investigation team might have to testify in legal proceedings, or the documents they generate might be subject to discovery if the investigation leads to civil litigation or criminal prosecution. By limiting the number of investigators, the company can limit its exposure to discovery. In addition, any internal investigation, by its nature, can lead to harsh allegations against one or more suspects. This, in turn, can lead to charges of defamation and invasion of privacy, among others. These charges will be bolstered if it is found that the company spread information about the suspects to people who did not have a legitimate interest in that information. Therefore, by limiting the size of the investigation team, the company can limit its exposure to certain tort claims.

None of this is meant to imply that the company should exclude otherwise necessary individuals from the investigation team simply out of fear of potentially harmful legal repercussions. On the contrary, the primary goal should be to resolve the allegations of fraud as thoroughly and efficiently as possible, and

that requires that all necessary individuals be involved in the effort. However, companies should avoid including extraneous personnel who add no real value to the team. A typical investigation team might include the following types of professionals.

Certified Fraud Examiners

A Certified Fraud Examiner (CFE) is trained to conduct a complex fraud examination from inception to conclusion. Fraud investigations frequently present special problems because they require an understanding of complex financial transactions, as well as traditional investigative techniques. Security personnel might be well-versed in investigative techniques, such as interviewing witnesses and collecting and preserving evidence for trial, but they might not know how to spot a fraudulent transaction in the company's books. Auditors and accountants might recognize a fraud scheme but might not have the training to conduct other aspects of an investigation. A CFE has training in all aspects of a fraud examination and therefore can serve as a valuable cornerstone of the investigation team, tying together the financial examination and the more traditional investigative techniques.

Legal Counsel

It is crucial to have counsel involved in and, in most cases, directing the investigation, at least as far as the legal aspects are concerned. As the text of this workbook will make clear, an internal investigation can engender a host of legal questions, such as:

- Should the company report the results of the investigation and, if so, to whom?
- How can the company preserve the confidentiality of the investigation?
- How should the investigation be conducted to avoid lawsuits?
- What areas can the company search and what information can be gathered without violating an employee's rights?
- When and how can an employee be fired for wrongful conduct?

These are just some of the issues that investigators will be faced with. The investigation team must have legal counsel on hand to sort out these questions; otherwise, the company risks exposing itself to greater danger than the threat it is investigating. In addition, by having a lawyer directing the investigation, or overseeing an investigation conducted at the lawyer's request, the company might be able to protect the confidentiality of its investigation under privileges such as the legal professional privilege and the litigation privilege. Teams working on international investigations or investigations spanning multiple jurisdictions should consult with lawyers in each jurisdiction, or legal counsel familiar with the legal issues in all relevant jurisdictions.

Video

In the video titled "Working with Counsel," anti-fraud expert and forensic accountant Janet McHard, CFE, CPA/CFF, explains some of the complicated dynamics of working with legal counsel during a fraud investigation. Ms. McHard is the founding partner of the McHard Firm, a company specializing in forensic accounting, fraud prevention, and accounting reconstruction. (Go to [redacted] to view the video.)

Accountants or Auditors (Internal or External)

Because accounting and audit knowledge is necessary for most fraud investigations, a team might include accountants and auditors, whether internal or external. A forensic accountant can provide various services, including examinations of financial documents for signs of fraud, misconduct, or violations of industry standards. Moreover, these experts can mine and analyze large amounts of data to identify potentially irregular transactions and high-risk relationships. Auditors can also support the investigation with information on company procedures and controls. Internal auditors are often used to review internal documentary evidence, evaluate tips or complaints, calculate estimated losses, and assist in technical areas of the company's operations. Additionally, auditors can help design procedural methods to identify the perpetrators and help determine the extent of the fraud. For investigations in unfamiliar jurisdictions, it is a good idea to enlist the support of a local auditor or accountant who can provide important information.

Security Personnel

Security department investigators are often assigned the investigation's fieldwork responsibilities, including interviewing outside witnesses and obtaining public records and other documents from third parties. It is crucial that their work be integrated with the financial side of the investigation so that the team does not devolve into two de facto investigations—one for financials, and one for fieldwork. The process works best when all aspects of the investigation are coordinated and focused on the same goal. Furthermore, investigations might require fieldwork in jurisdictions that would benefit from security personnel's advice or presence.

Human Resources Personnel

The human resources department (HR) should be consulted to ensure that the local laws governing the rights of employees in the workplace are not violated. Such involvement will lessen the possibility of a wrongful discharge suit or other civil action by an employee. Advice from an HR specialist might also be needed, but normally this person would not directly participate in the investigation. Moreover, HR can help the team understand office procedures or cultural differences in a particular jurisdiction, and if needed, can help place suspect employees on paid leave.

Management Representative

A representative of management, or in significant cases, the audit committee of the board of directors, should be kept informed of the progress of the investigation and be available to lend necessary assistance. A sensitive employee investigation has little hope of success without strong management support.

Information Technology Personnel

In most cases, information technology (IT) department personnel will need to be part of an investigation to help identify what data is available and where it is located, as well as to help safeguard the data until it can be analyzed. Additionally, if an investigation involves more than cursory analysis of electronic evidence, the team should include someone with computer forensics expertise. With most communication conducted electronically, emails or other electronic correspondence can be used as evidence in most cases and might require the assistance of IT personnel to identify or recover. Computer forensic experts can uncover a large amount of data that relates to the use of a computer, what is or has been stored on it, and the details about the computer's users. Additionally, computer forensic experts might be able to recover evidence that a nonexpert cannot.

Outside Consultants

In some cases, especially those involving powerful employees or foreign jurisdictions, it might be useful to employ outside specialists who are relatively immune to the company's politics or to threats of reprisals. An employee suspected of fraudulent activity might try to influence the investigation by limiting a fraud examiner's access to necessary information or discouraging other employees from cooperating with the investigation. Additionally, it might be more difficult for an internal fraud examiner to carry out the investigation objectively due to the expressed or perceived threats of repercussions stemming from investigating a powerful or well-liked employee. An outside specialist generally will not be subject to intimidation, and their presence can discourage an alleged perpetrator from attempting to influence the investigation. Outside experts might also have more subject-matter experience, local familiarity, and investigative contacts than insiders. It might be necessary to include someone with deep industry knowledge. Industry specialists can use their knowledge and experience to help develop the investigation plan, evaluate technical documents, and identify potential misstatements by interviewees.

Defining the Goals or Purpose of the Investigation

A fraud investigation must have goals or a purpose. The goals should be clearly identified at the outset so that the investigation can be designed to achieve them. Goals also help keep the investigation focused and can serve as a motivator.

To be effective, goals should be specific and well defined. Specific goals are more likely to be achieved than general goals. If goals are not well defined, the team cannot expect to reach them, and goals must be realistic for the availability of resources, knowledge, and time. Also, goals should be measurable to

allow the team to determine whether the goals are attainable, estimate how long it will take to complete them, and know when they have been achieved.

Although the basic goal for most fraud investigations is to determine whether fraud occurred and, if so, who perpetrated it, fraud investigations might be designed to achieve multiple goals. Typically, fraud investigations are designed to:

- Prevent further loss or exposure to risk.
- Determine whether there is any ongoing conduct of concern.
- Establish and secure evidence necessary for criminal or disciplinary action.

Other possible goals of fraud investigations include:

- Minimize and recover losses.
- Review the reasons for the incident, investigate the measures taken to prevent a recurrence, and determine any action needed to strengthen future responses to fraud.
- Help promote an anti-fraud culture by making it clear to employees and others that management pursues all cases vigorously, taking appropriate legal or disciplinary action where it is justified.

Investigative Strategy: Fraud Examination Methodology

Once an internal investigation is deemed necessary, the investigative team is selected and the goals are defined, the fraud examination can begin. An internal investigation of suspected fraud should follow the fraud examination methodology, which requires that all fraud examinations be handled in a uniform, legal fashion and be resolved on a timely basis. Assuming there is sufficient reason (i.e., predication) to conduct a fraud examination, specific examination steps are usually employed in an orderly manner. The fraud examination moves from the general to the specific, gradually focusing on the perpetrator through a process of careful acquisition and analysis of evidence. At each step of the examination, the evidence that has been obtained is assessed and compared to the overriding investigative theory. Where necessary, that theory is refined to direct the investigation at the most logical source of the fraud. The investigation team must be careful throughout the investigation to observe the rights of all individuals affected by the investigation.

Predication

An internal fraud investigation consists of numerous steps, all of which might be necessary to resolve allegations of fraud: interviewing witnesses, assembling evidence, writing reports, and dealing with prosecutors and the courts. Because the investigation of fraud deals with the individual rights of others, an investigation must be conducted only with adequate cause or predication.

Predication is the totality of circumstances that would lead a reasonable, professionally trained, and prudent individual to believe a fraud has occurred, is occurring, or will occur. Predication is the basis upon which an examination is commenced. The origin of predication might be generated by an