



PERSPECTIVES

Essential Steps for Protecting Your Company in a Fraud Investigation

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

INTRODUCTION

Fraud is a pervasive issue that affects businesses, organizations, and individuals across various industries. Often, an organization is surprised to find itself a victim of fraud, especially when the perpetrator is a trusted employee. According to the Association of Certified Fraud Examiner's *Occupational Fraud 2022: A Report to the Nations*, organizations lose approximately five percent of revenue to fraud each year with the average loss per case totaling more than \$1.78 million.¹ Chances are that if you have not discovered fraudulent activity in your company yet, it's only a matter of time. When you discover that an employee is stealing from your organization, it is important to handle the situation carefully and responsibly.

Fraud investigations are complex and multifaceted processes that require a systematic approach. For many companies and owners, this is new territory, and most are likely unsure what to do next once fraud is discovered.

However, the first steps in a fraud investigation are crucial to setting the tone and can set the stage for a successful, or lack thereof, investigation. This article details the first steps a company should take when initiating a fraud investigation, what experts will be necessary to uncover illicit behavior, and what parties need to be notified.

The Initial Steps

As a business owner or executive, you may have a nagging feeling that something isn't right within your organization, or your company may receive an anonymous tip through its fraud hotline. Once the suspicions of wrongdoing have been substantiated through an initial analysis, it is now time to follow these important steps in order to protect your company. The following measures are crucial to a successful investigation and may need to be addressed concurrently due to the urgency of the matter.

- **Assemble your team of professionals.** Once you suspect fraud has occurred within your organization, your first step should be lining up your team of professionals skilled in conducting fraud investigations. The team should be comprised of outside legal counsel, a forensic accountant, and a computer forensic specialist. While in-house counsel and accounting staff may be included

in meetings and discussions, attorneys and forensic accountants experienced in investigations are able to independently conduct interviews and perform analysis with a neutral perspective. For further consideration, an employment attorney can guide you on the appropriate and legal way to handle the suspected employee.

The investigation team will define the scope of the probe, establish clear communication about the division of responsibilities, and ensure compliance with legal and ethical requirements. Fraud investigations often involve legal implications. Investigators must collaborate with legal professionals to ensure compliance with applicable laws, regulations, and rules of evidence. When selecting your team of professionals, certain skillsets should be considered, such as interviewing, financial analysis, and data analytics, and potentially other technical specialties, depending on the facts and circumstances.

Forensic accountants and fraud investigators are trained to examine and analyze financial records. These records will likely include financial statements, bank records, transactional data, and other relevant documents to identify irregularities, discrepancies, or patterns indicative of fraudulent activities.

Throughout the course of the investigation, the team will likely need to interact, or possibly interview, key personnel within the organization and from various departments. Interviews play a crucial role in uncovering fraudulent activities. Interviewing witnesses, victims, suspects, and relevant individuals can provide valuable insights, corroborate evidence, and aid in identifying potential perpetrators. Selecting a team of professionals skilled in interviewing techniques and possibly behavioral analysis should be considered.

Throughout the inquiry, information should be distributed with care and consideration. In addition, the investigation team should establish confidentiality guidelines for all parties involved to prevent leaks and / or dissemination of misinformation.

- **Inform necessary parties.** Once your organization learns of a substantiated fraud claim, certain parties should be notified of the investigation, such as your company's board of directors, internal audit department, human resources, and possibly management. While certain

¹ *Occupational Fraud 2022: A Report to the Nations*, Association of Certified Fraud Examiners.

key personnel may need to be informed about the allegations, your team of professionals may wish to keep most information related to the investigation under wraps as they determine all involved parties, including if suspects were colluding together in the scheme.

Another party that should be notified as soon as a loss is determined is your insurance company. For many organizations, their business insurance policy includes coverage for employee dishonesty or other coverage for fraudulent activity, known as fidelity or commercial crime insurance. In order to file a claim, you must notify your insurance carrier once a loss has been discovered. You will want to review your policy to ensure you adhere to the requirements necessary when filing a claim, such as the notification window and the company's response once a loss is discovered. Further, your policy may include coverage for claims preparation which would reimburse the company for professional fees incurred to investigate and quantify the covered loss.

- **Restrict suspect's access.** As you put your team in place, ensure that you protect your organization from further vulnerabilities and damages by removing the suspected employee's access to the company's systems, corporate credit card, and other physical assets. In addition, your human resources officer and employment attorney may advise you to place the suspect employee(s) on a leave of absence during the investigation before possible termination.
- **Gather and preserve evidence.** A crucial step in any investigation is to gather and preserve all evidence which likely will be needed for possible court proceedings, civil and / or criminal, and potentially a fidelity insurance claim. Preserving evidence is vital to maintain the integrity and admissibility of collected information. Investigators must secure physical and electronic evidence promptly, ensuring proper documentation, chain of custody, and adherence to forensic principles to avoid spoliation. This step involves seizing documents, electronic data, conducting interviews, and using specialized tools when necessary. Electronic evidence gathered should include ephemeral messaging, which are apps that have the ability to erase conversations between users, as applicable.

- **Document investigative procedures and findings.** Throughout the investigation, it is essential to maintain detailed and accurate documentation of all actions, interviews, findings, and evidence collected. Comprehensive documentation serves as a record of the investigation process, supports the development of a cohesive narrative, and facilitates effective communication with stakeholders and legal authorities. The investigation team typically compiles a final report of findings which details the investigative process, individuals interviewed, witness statements provided, documents reviewed, results of financial analysis, and finally recommendations for strengthening internal controls.

- **Implement Recommended Corrective Measures.** A valuable aspect of any investigation report is its assessment of organizational vulnerabilities and weaknesses and recommendations for corrective measures, such as ways to strengthen internal controls. It is essential to leverage the lessons learned from each investigation to continuously improve fraud prevention and detection mechanisms, enhancing overall organizational resilience against future fraudulent activities. The victim organization should evaluate their existing internal controls and security measures to identify any vulnerabilities that may have allowed the theft to occur. Strengthen these controls to prevent future incidents and protect the company's assets.

CONCLUSION

Conducting a successful fraud investigation requires meticulous planning, thorough execution, and collaboration among investigators, experts, and legal professionals. Throughout the investigative process, it is important to handle the situation legally, professionally, and ethically. By following the outlined steps and adhering to best practices, investigators can maximize their chances of uncovering fraud, mitigating losses, and implementing preventive measures to safeguard against future fraudulent activities.

ACKNOWLEDGMENTS

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