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**If You Suspect Fraud in Your Company,  
What Do You Do?**

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# What To Do if You Suspect Fraud Within Your Company

# Gather the Facts: Understand What Happened?

- Look into the matter and confirm you understand all the facts.
- Gain an understanding of:
  - ✓ What appears to be wrong
  - ✓ What could be the cause
  - ✓ Who has the access to the areas affected
- Consider involving a Certified Fraud Examiner (CFE)

# Protecting the Documentation

Create a backup of all related financial information and keep it on a computer drive with restricted access.

- This ensures that all information available, at the time of the suspicion, will be kept intact and untampered with.
- Make copies of all documentation in paper form, which you believe may be useful in supporting your assertions.



# Protecting System Data

Isolate the IT equipment used by the suspected fraudster and ensure its safekeeping:

- Respect the chain of custody
- Make sure that you are safe
- Recognize computer evidence (computers, external hard drives, CDs, etc.)
- To pull the plug or not?
- Preserve the computer for forensic expert's exam
- Consult with police/legal regarding search warrant

# Employee Considerations (1/2)

- Do not confront an employee about fraud if you're unsure of his involvement:
  - Confront the employee personally in your office, accompanied by (at least) a Human Resources representative.
  - Explain that he was caught in a fraudulent act. If he refuses to admit to committing fraud, show him the evidence that supports your accusation.
  - Ask the employee whether anyone helped him with his fraudulent acts.

## Employee Considerations (2/2)

- Ask him why he committed the fraudulent act and what made it possible for him to do so. Do not inform the employee of details relating to any possible disciplinary actions yet.
- Consider placing the employee on temporary leave.
- After the conversation, escort the employee to his desk to gather his personal belongings.

# Considering Whether to Press Charges

- Consider the possibility of filing charges
  - Do you have adequate insurance coverage?
  - You will only recover damages from the insurance company if charges are filed.
  - If charges are filed, the fraud will become public knowledge (Police must be notified).
  - If charges are filed, will this impact the Company's or owner's reputation?

# How Does this Impact Things Internally?

- Evaluate and modify your internal controls
  - Based on the experience, you should have a clear idea of how the fraud was committed. Make modifications to your internal controls so that the likelihood of this type of fraud will be prevented from occurring in the future.



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# Which of the following is an example of a multiple T&E expense reimbursement scheme?

- a. Jamal generates a fake receipt and includes it along with his legitimate expenses on his expense report.
- b. Riley charges a hotel stay on the company credit card and later submits a receipt for the hotel reservation for reimbursement.
- c. Martha uses photo editing software to increase the price on an electronic receipt, which she then submits for reimbursement.
- d. Joanna includes a receipt for dinner with a large group of friends on her expense report and describes the dinner as “client entertainment.”



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# Which of the following red flags is **MOST** indicative of a potential fictitious T&E expense scheme?

- a. Sequentially numbered receipts for submitted T&E expenses.
- b. T&E expenses submitted for reimbursement long after they were incurred.
- c. T&E expenses with dates and times that are inconsistent with employee's work schedule.
- d. Claims for T&E expenses incurred in exotic locations.



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# Which of the following is NOT a best practice for preventing T&E fraud?

- a. Inform employees that their T&E expenses can be subject to audit at any time.
- b. Have a T&E expense policy that outlines in detail which expenses are and are not acceptable.
- c. Require electronic copies of receipts, rather than paper receipts, for all T&E expenses.
- d. Require that expense reports be submitted within a certain amount of time from the date on which the expense was incurred.



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**Rebecca, an auditor for Green Corp., is testing T&E transactions to look for transactions in which legitimate T&E expenses are overstated. Which of the following tests would be the MOST helpful in identifying overstated T&E expenses?**

- a. Comparing expense dates with HR records or employee's paid time off (PTO).
- b. Comparing expense descriptions with the merchant codes and expense categories from credit card companies.
- c. Comparing total mileage claims to distances of reported business travel destinations.
- d. Identifying mileage or airfare charges for which there are no corresponding hotel or out-of-town meal expenses.



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**One of the front lines of defense against T&E expense fraud is ensuring managers effectively review employee expense reports before signing off on them. As part of this process, managers should do all of the following EXCEPT:**

- a. Scrutinize receipts and supporting documents for alterations.
- b. Accept, review and approve expense reports from employees in other departments.
- c. Review the reasonableness of dates and times of expenses incurred as part of a single trip.
- d. Compare expenses claimed by each employee to those of other employees in the department who have similar duties.

# What NOT To Do if You Suspect Fraud Within Your Company



# Protecting the Scene

- Don't let anyone, who you believe could be involved, become aware you know something is wrong.
  - Keep this information to a small trusted group and your CFE.
  - Be discreet when trying to gather information.
  - Don't allow an employee to cover his tracks.
  - Make a copy of your financial information and keep it in a restricted file.

# Confronting the Suspected Fraudster

- Don't make accusations without having discussions with third-party professionals (Lawyer, CFE, Law Enforcement).
- When talking with the accused, have another high-level employee present, if not your lawyer, so a reliable third party can witness the conversation.

# Additional Thoughts (1/2)

- Have you performed a fraud risk assessment?
- Have you evaluated the adequacy of your internal control environment?
- Do you have a plan in place if there is fraud suspected within your Company?
- Is financial and IT information being backed up daily, weekly or monthly?

## Additional Thoughts (2/2)

- Is there a way for your employees to express concerns regarding possible fraud? Some examples are:
  - Confidential hotline
  - Employee training
  - Implementation of ethics, code of conduct, zero tolerance policies

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