Unpacking the finer points that make fraud investigative work interesting and challenging, Anatomy of a Fraud Investigation breaks down the "juicy details" of a fraud investigation from beginning to end, with a you-are-there analysis of the steps and measures involved in each stage of an actual fraud investigation.

Stephen Pedneault, CPA/CFF, CFE, is the founder and Principal of Forensic Accounting Services LLC, a CPA firm specialising in forensic accounting, employee fraud, and litigation support matters. Steve is the author of Fraud 101: Techniques and Strategies for Understanding Fraud (Wiley) and a contributor to Fraud Casebook: Lessons from the Bad Side of Business (Wiley). He is writing his third book, Preventing and Detecting Employee Theft and Embezzlement: A Practical Guide (Wiley), due out in June 2010. Steve has also written numerous articles appearing in local and national media, and is a frequent speaker on the subjects of employee embezzlement and forensic accounting.

For more information about Stephen Pedneault, go to www.forensicaccountingservices.com.

"In the first book of its kind, Anatomy of a Fraud Investigation combines a detective story with a textbook. Mr. Pedneault leads the reader through the investigation of an embezzlement. Along the way, he shows us all the stages of a fraud case—from the initial detections through prosecution—and shares with us tips and techniques to successfully complete each stage. Provisioning instruction in the context of a case study results in an enjoyable and interesting experience for anyone interested in learning more about fraud investigation."

—John D. Gill, J.D., CFE, Vice President—Education Association of Certified Fraud Examiners

"In Anatomy of a Fraud Investigation, which reads like a thriller, Stephen Pedneault does a masterful job in exposing how thievery is discerned and stopped and thieves prosecuted."

—Julie Jason, author of The AARP Retirement Survival Guide: How to Make Smart Financial Decisions in Good Times and Bad

"Effectively designed for comprehending the phases of a fraud investigation. Progressively delineates the complexity of a fraud investigation through amusing learning points within a continuous, unwinding narrative."

—David R. Lavoie, Ph.D., M.L.I.S., Director of Instructional Design & Assessment, School of Business, University of Connecticut

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FROM DETECTION TO PROSECUTION

Stephen Pedneault
With deep appreciation and love, for my parents, Gerry and Dot. Your personal sacrifices gave me so many opportunities growing up. Your strong work ethic, sense of values, and ideals created the foundation for the man I strive to be today.

Thank you,
—Steve
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And to the Association of Certified Fraud Examiners, the premier international organization that provides superior educational opportunities directed to prevent fraud as well as investigate fraud, leading the world on their crusade to bring fraudulent activity back to a controlled level.
INTRODUCTION

When the case became available to the public, journalists flocked to the station to read the blotter details regarding the arrest. A well-known executive with strong community ties was charged with a financial crime involving a very reputable non-profit organization. As the story broke that day to the public, it appeared in a local newspaper and on a local television station. A camera crew went to the suspect’s house to capture a distant glimpse of someone looking out an upstairs window for the six o’clock news. Reporters fanned out to talk with neighbors about how great the suspect was, and how surprised they were to hear the news. Nothing sells better than unplanned reactions to “shock-and-awe” reporting.

When the printed story came out later that day, it was consistent with so many others similarly reported, and read as follows:

Controller Charged With Embezzling from Non-Profit Agency

James Smith, 43, was arrested yesterday on charges that he pilfered hundreds of thousands of dollars from his employer over the course of several years. Smith turned himself in to local authorities accompanied by his attorney after learning that police had secured a warrant for his arrest.

Smith started at Crestview as an accounting manager and rose through the ranks to become their controller. A surprise audit revealed Smith used the organization’s credit cards for personal expenses in support of his lavish lifestyle, including trips he took throughout the world. Funds intended for Crestview were diverted into a bank account opened by Smith that he allegedly used to pay the credit card activity each month.

Shortly after the discovery, Smith was placed on administrative leave. As part of the negotiations for a potential plea deal, Smith purportedly agreed to initially return $78,000 and make restitution to Crestview for the full amount of their loss.

(Continued)
The story appeared that day, and nothing further was ever heard again on the matter until the day of Mr. Smith’s sentencing. Even then the media’s attention was limited to a very small follow-up article, revealing no new or additional details about the case. No television crews were at the courthouse, and no reporters went to Mr. Smith’s neighbors for comment and reaction to the sentence handed down. There was nothing reported from the media because it had become old news and there were other things happening in the world worthy of attention.

There was nothing unique about this story. In fact, the only thing that was even remotely unique was that it initially appeared in earlier stories at all. Most fraud cases, especially thefts and embezzlements, never even make it to the public’s eye for many reasons. Statistically, one in nine matters ever appear in the media, and I know from my own personal experience that one is nine is pretty accurate.

Cases are often resolved quietly under confidential circumstances, and when they are reported for public access, they appear in abbreviated fashion. The lack of stories and details give readers little or no means of learning how these types of cases occur or are discovered, investigated, and ultimately resolved. For experienced and inexperienced fraud professionals alike, there is little available to initially learn or keep abreast of the latest fraud tactics. Readers want details. I want details. The problem is I never find them.

The stories and cases that actually do grab the media’s attention merely report the end result of weeks, months, and even years of investigative procedures. Due to space, time, and cost limitations, only select highlights or points are typically included to tell the story. Along the lines of Sergeant Joe Friday’s approach from the television series *Dragnet*, the story omits all the rich details in exchange for the “Just the facts, Ma’am” writing style.

What about how the case came to light in the first place? How about the stakeout and raid used to secure much of the evidence
that was instrumental in leading to the arrest? Who were the individuals behind the scene putting the case together, sifting through ledgers, canceled checks, and other records that comprised a mountain of evidence? Who handled all that information, and where does one store that kind of evidence? What else was found during the investigation, and where did it lead in the case? Who were the witnesses, and did the suspect act alone or with the assistance of an accomplice? Were computer forensics involved, and what was discovered on their computers? We want the juicy details that are next to never reported.

The rich details are rarely found in the news stories, and are lacking in most books published on fraud and fraud investigations, yet the who, what, where, when, how, and why are the very details sought by readers of all levels, within and beyond the fraud profession. There is such a need to tell the full tales of the unsung heroes (if you will) who bring their expertise and experience into an investigation to help solve a particular matter or crime. I know from my own experience that getting paid for the work is a motivator for many, but many fraud investigators like myself simply enjoy the challenge of piecing together a fraud investigation. Persisting on a minor detail that leads to the discovery of major information, or listening to a witness’s or suspect’s story or explanation, only to systematically lead them through an unraveling at their own hands, is what drives me.

These are the details that make fraud investigative work interesting and challenging—articulating the thought process from beginning to end. What led to the need to raid the location? What was it like showing up unexpectedly and taking over? How did the employees react? How did you deal with all that information, including that of the employees’ computers? And why did the media never learn about the whole thing going on right under their noses?

This book is intended to fill the void created by omitting the rich details, and provide in as much detail as possible the steps and measures used in an actual fraud investigation, starting from the time the initial allegation was received right through to the final resolution of the matter.

While the facts specific to the case have been changed to protect the identities of all parties involved, the basis of this book is an actual fraud investigation based on firsthand knowledge of all the details. This is particularly applicable when the nature and amount of the theft is first identified. While the fraud scheme may seem unusual for