

Report Writing MANUAL



ACFE®

Association of Certified Fraud Examiners

III. WRITING FRAUD EXAMINATION REPORTS

Report Structure

Report formats vary widely. Some organizations, especially governmental investigative bodies, use report forms so that case information is provided in a consistent manner. Therefore, you should first check with your client or supervisor to determine if there is a report format that you are required to use. If not, then the format provided below can prove helpful.

Suggested Standard Format

Fraud examination reports are not “one size fits all” items. Obviously, no format can cover every specific case, company, or situation. However, a standard format is a good place to start. A sample report is included in Appendix C, and portions are included in this section as examples. We have also included this report and a template based on this report in Microsoft Word on the accompanying disc. The ACFE recommends that most types of reports include the following sections.

Background

The background section should generally be about two paragraphs. It should state very succinctly why the fraud examination was conducted (e.g., an anonymous tip was received, an anomaly was discovered during an audit, money or property was missing).

You can also state who called for the examination and who assembled the examination team.

EXAMPLE

On January 28, 2017, the fraud examination unit at Bailey Books received an anonymous telephone call on its fraud hotline from an unidentified man who claimed that he was a former supplier to Bailey. The caller alleged certain improprieties in the bidding and procurement process.

Based upon this initial predication, a fraud examination was conducted, which included reviews of relevant records and interviews of appropriate personnel.

Executive Summary

For a simple fraud examination, the executive summary should be no more than four or five paragraphs. For a more complex case, the summary might reach a page or two in length.

In this section, you should also summarize what actions you performed during the fraud examination, such as reviewing documents, interviewing witnesses, or conducting analyses or tests. It provides the reader with an overview of what you did during the examination process.

At the end of this section, you should summarize the outcome of the examination. For example, “\$50,000 in checks was deposited into an account owned by Bob Wilson. When confronted with this information, Wilson stated that he only borrowed the money and meant to pay it back.”

EXAMPLE

The fraud examination commenced when Loren D. Bridges, CFE, received a telephone call from an unidentified man who said that he had been a long-term supplier to Bailey for sundry office supplies and paper. The caller said that ever since Linda Reed Collins had taken over as Purchasing Manager, he had been gradually “squeezed out” from doing business with Bailey.

Linda Reed Collins has been employed in the purchasing department of Bailey Books since June 1, 2012. She was promoted to Purchasing Manager effective November 8, 2014.

The Fraud Examination Team reviewed selected purchases from 2014 to 2016 and conducted interviews of key participants and Bailey employees who we believed might have information regarding the misappropriation of assets. The Team reviewed purchasing guidelines, personnel files of interviewees, and various financial documents relating to both Bailey Books and Linda Reed Collins.

After obtaining sufficient documentation, the Team interviewed Linda Reed Collins, who gave a full signed confession of her misdeeds.

Scope

This section should consist of only one paragraph explaining the scope of the fraud examination. For example, “Determine whether there was a misappropriation of inventory from the warehouse,” or “Determine why money is missing from the bank account.”

EXAMPLE

The objective of the Fraud Examination Team was as follows:

- *Determine the existence of a possible misappropriation of assets of Bailey Books, Incorporated. The examination is predicated upon an anonymous telephone call alleging improprieties on the part of Linda Reed Collins, Bailey’s Purchasing Manager.*

Approach

This section gives a brief description of the following items:

- Fraud examination team members
- Procedures (generally, what documents were reviewed or what tests were conducted)
- Individuals interviewed

It provides a handy reference to who was involved in the fraud examination, what the team reviewed, what tests or analyses the team conducted, and what individuals the team interviewed.

EXAMPLE

Fraud Examination Team Members

Loren D. Bridges, CFE, Bailey Books; Tonya Vincent, CFE, Bailey Books

Procedures

As part of the examination of this matter, the Team took the following actions:

- *Obtained, reviewed, and analyzed memoranda pertaining to the anonymous call described previously.*
- *Conducted surveillance activity in order to determine whether the two key individuals in the matter were involved in an illicit relationship.*
- *Obtained, reviewed, and analyzed Bailey Books' financial documentation, including purchase records, invoices, and canceled checks.*
- *Obtained, reviewed, and analyzed records from the St. Augustine County Courthouse regarding civil actions in which Edward J. Collins and Linda Reed Collins were named; records from the Florida Secretary of State's Office regarding Collins Marine Corporation; records from Chattel Mortgages regarding Linda Reed Collins and Edward Collins; financial records from Dun & Bradstreet regarding Collins Marine Corporation; and public records regarding the financial condition of Linda Reed Collins and Edward J. Collins.*

Individuals Interviewed

The following individuals were interviewed in person by members of the Fraud Examination Team:

Mark W. Steinberg, CPA (Chief Financial Officer, Bailey Books)

Roger Donald McGuire (Purchasing Agent, Bailey Books)

Mary Rodriguez De La Garza (Purchasing Department, Bailey Books)

Sara Louise Dawson (Former Employee, Bailey Books)

Findings

This section contains the details of the fraud examination. It generally consists of several pages. In this section, you should describe what tasks you performed and what you found. Provide enough detail so the reader understands what occurred, but not so much detail that the reader begins to lose interest or becomes bogged down in the details. The reader wants to know how many invoices were forged, who was involved, how they did it, and what proof you have.

If the findings section is long, you might want to use subheadings for certain topics or individuals to make it easier for the reader to stay organized.

The information can be presented either chronologically or by topic—whatever makes it easier for the reader to follow.

EXAMPLE

Based upon the documents reviewed, information collected, and interviews conducted during the course of the fraud examination, the Team's findings are as follows:

Did the Fraud Examination Team determine the existence of a possible misappropriation of assets of Bailey Books Incorporated?

Yes. The documents and information reviewed and interviews conducted by the fraud examination team during the examination indicate that Linda Reed Collins, together with James R. Nagel, did knowingly embezzle approximately \$197,773 from Bailey Books over four years. During the fraud examination, the Team used financial documents and interviews to corroborate the statements of an anonymous caller. The following is a summary of the evidence and information supporting the Fraud Examination Team's findings.

Summary

This section should be one or two paragraphs, succinctly summarize the results of the fraud examination, and be similar to the outcome stated at the end of the Executive Summary section.

EXAMPLE

This report reflects that Collins, a purchasing agent for Bailey Books, Inc., furnished a signed statement on May 1, 2017, indicating she had accepted at least \$197,773 in commercial bribes and other illicit income in a conspiracy with James R. Nagel, an account representative for Orion Corporation, St. Augustine, FL.

The statements made by Collins are corroborated by the documentary evidence and the interviews of other witnesses as described herein.

Impact

Here you should describe how the fraud affected the victim organization. In this section, you can provide an estimate of the dollar losses or any other kind of tangible or intangible damage already suffered or that might occur in the future.

EXAMPLE

Over the course of four years, Linda Reed Collins, in partnership with James R. Nagel, misappropriated an estimated \$197,773 from Bailey Books, Incorporated.

Additional amounts were lost due to Bailey overpaying for merchandise sold to the company by Nagel. Those amounts have not been calculated.

Recommendations

This section is *optional*. There might be instances in which you want to discuss remedial measures or specific recommendations in a separate document. If you do want to include this section, you should state what follow-up action is necessary or recommended, including remedial measures such as a review of internal controls, introduction of a hotline, or increased security.

EXAMPLE

It is the policy of Bailey Books to report such matters to the appropriate authorities and to assist in criminal prosecution. A full review of internal controls should be conducted to determine how such incidents can be detected in the future.

Long-Form Report and Reporting Documents

The basic reporting documents are:

- Memoranda
- Exhibits, documents, or enclosures
- Indexes
- Cover page
- Transmittal letter

The long-form report consists of copies of these documents. The Linda Reed Collins case study report, included in Appendix E, illustrates this approach.

The heart of the documentation is the memoranda of interview, and one memorandum should be prepared for each official contact. Once all the memoranda of interviews are completed, they are typically assembled in chronological order and indexed.

Memoranda

Use memoranda to document all interviews and other pertinent information discovered during the examination. Each memorandum should contain the following information where appropriate:

- Heading
- File number or control number
- Name of person reporting
- Case name or subject
- Subject of memorandum
- Date

- Details of facts
- Indicate whether the interview was voluntary
- Indicate whether subject provided personal identification
- Indicate whether the subject was informed of the nature of the inquiry
- Date of inquiry
- How the interview was conducted (in person, by telephone, etc.)
- If the interview was electronically recorded
- Facts learned during the inquiry

Cover Page or Letter

A *cover page* summarizes the examination's salient points. The cover page should be direct and succinct. If a report is submitted to an outside agency (e.g., law enforcement or outside counsel), it should be accompanied by a cover letter. The cover letter should recapitulate information in the report and summarize the principal weaknesses. It is not necessary to list all witnesses, only those who are most valuable.

Exhibits

As a rule, copies of exhibits should be included in the report and not attached separately. However, bulky files (including working papers and similar exhibits) might be attached separately and referred to in the body of the report. The chain of custody should be maintained over original documents.

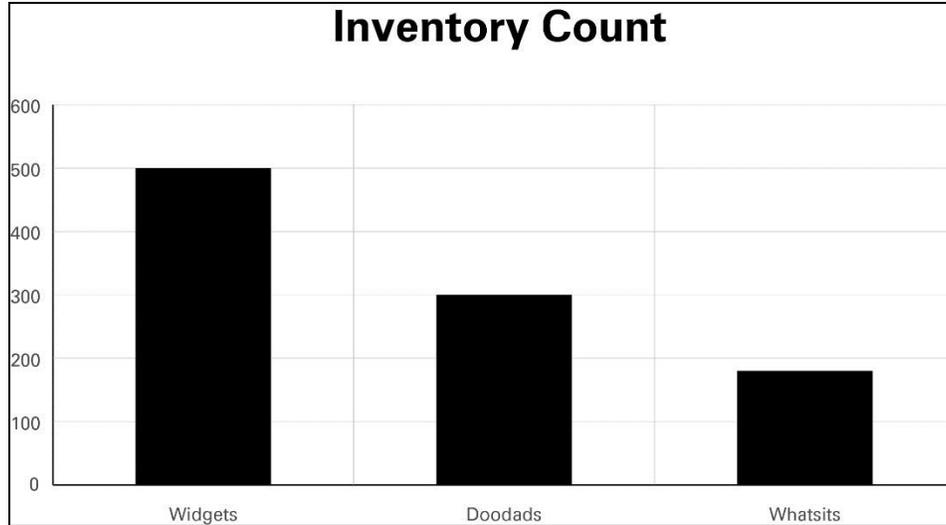
Visual Aids

A well-executed visual aid can make a report more powerful and effective, and it can even be preferable to text if you have to present complex, number-heavy information. You have many options to choose from when it comes to visuals, and you should know which one is best in any given situation. For instance, a pie chart might be the best illustrator if you need to show proportions, while a line graph is better if you are trying to show change or progress over time. Common computer software programs make creating charts, graphs, and tables simple.

Charts and Graphs

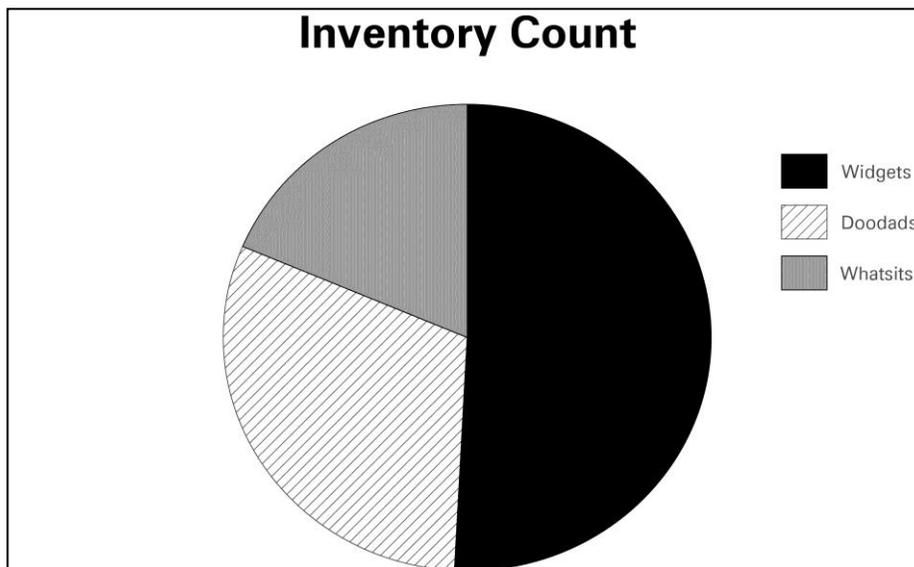
Bar Graph

Bar graphs are helpful when you need to compare amounts of various items in one, single period. For example, you can use a bar graph to represent the inventory in a warehouse. Rather than writing, "The company had 500 widgets, 300 doodads, and 180 whatsits," you can create a visual representation of the inventory.



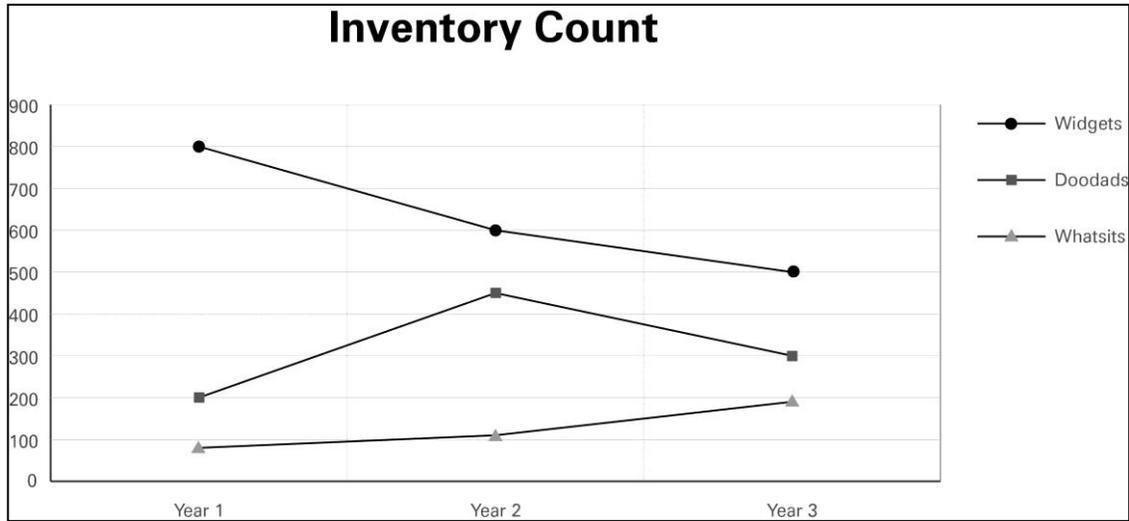
Pie Chart

Pie charts are often used to demonstrate percentages. In our inventory example, we could use a pie chart to show what percentage of our inventory is composed of widgets versus doodads versus whatsits.



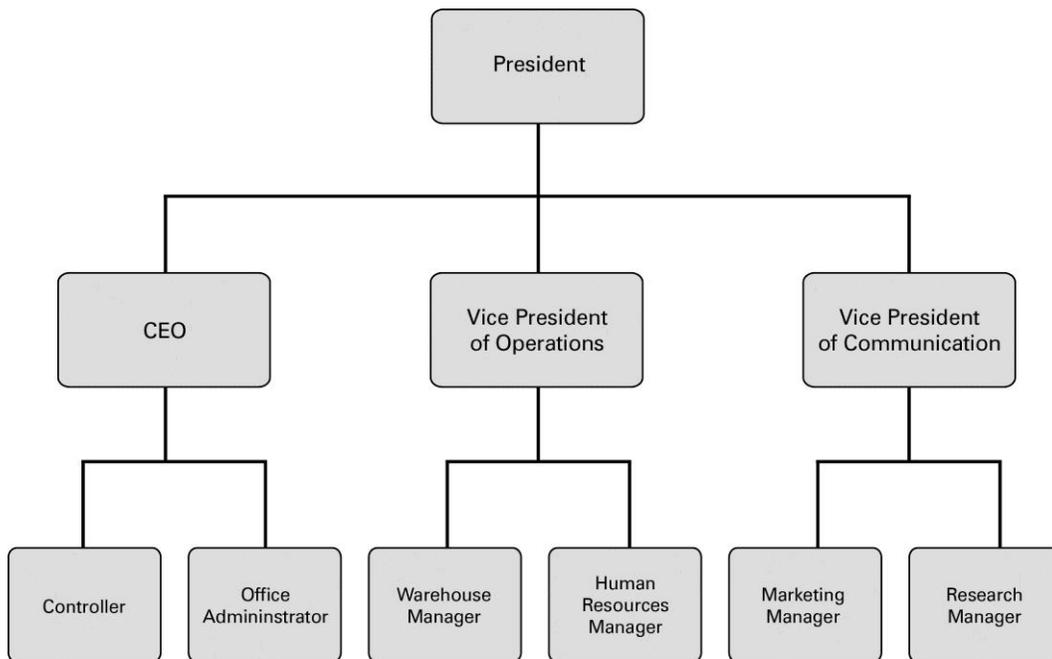
Line Graph

Line graphs are most commonly used to show progress over time. For example, if we wanted to track the amount of inventory we had during the last three years, we could use a line graph to clearly show changes.



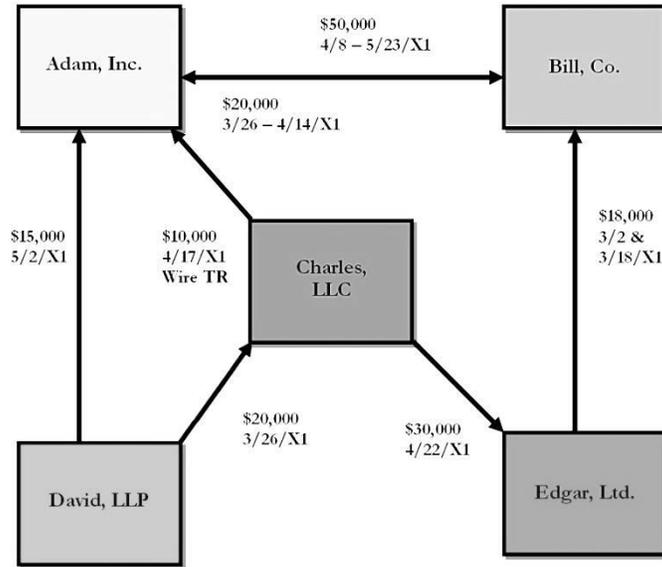
Organizational Chart

Organizational charts are used to visually display hierarchy. If it is important to show where a suspect falls within a company’s structure, an organizational chart can be used.



Flow Chart

Flow charts are helpful if you need your reader to follow a series of steps or a process. For instance, if a suspect executed a series of events prior to committing fraud, and that series is important for readers to understand, a flow chart might be better than text. The example below illustrates the flow of money between five business entities.



Other Charts and Graphs

The charts and graphs discussed above are only a few of your choices. Other graphs you might want to consider include area charts, scatter charts, Venn diagrams, cycle diagrams, and pyramids. Take some time to explore the different options in Microsoft Word and Excel (the easiest programs to use if you are not familiar with visual aids), and consider adding one to your next report.

Tables

Tables are best if you need to present numbers in an organized, clear manner. The following narrative format and table format include the same information. Which is more understandable?

Narrative Format

The first year, the account had a starting balance of \$8,500, withdrawals of \$7,000, deposits of \$5,000, and an ending balance of \$6,500. The second year began with a balance of \$6,500 and had similar withdrawals as the year before—\$7,250. However, deposits in year two totaled \$18,500. The balance at the end of year two was \$17,750.

Table Format

	Year 1	Year 2
Beginning Balance	\$8,500	\$6,500
Withdrawals	\$7,000	\$7,250
Deposits	\$5,000	\$18,500
Ending Balance	\$6,500	\$17,750