

Benchmarking Your In-House Fraud Investigation Team



A REPORT BY THE ASSOCIATION OF CERTIFIED FRAUD EXAMINERS



Association of Certified Fraud Examiners

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Introduction



Every type of department can benefit from a comparison of its structure, resources, and performance to those at similar organizations; internal fraud investigation departments are no exception. Often, when evaluating a fraud investigation team, management has to rely primarily on the organization's own historical data. And organizations that decide to establish new fraud teams might have very little data to guide them.

To address the lack of available benchmarking information for internal fraud investigation departments, we collected data about our members' internal investigation teams and analyzed how they are structured and how they performed, as well as how they measured their own effectiveness. While the circumstances and needs of every organization differ, our hope is that this report assists our members and others in creating or implementing changes to their internal fraud investigation teams.

METHODOLOGY

Our survey was open to all ACFE members who work as part of an in-house team that performs fraud examinations for their employing organization. Survey responses were collected anonymously. We received a total of 1,118 survey responses, 828 of which were usable for purposes of our study. All analyses contained in this report are based on those qualifying responses that provided answers to the relevant survey question(s).

Respondent Demographics

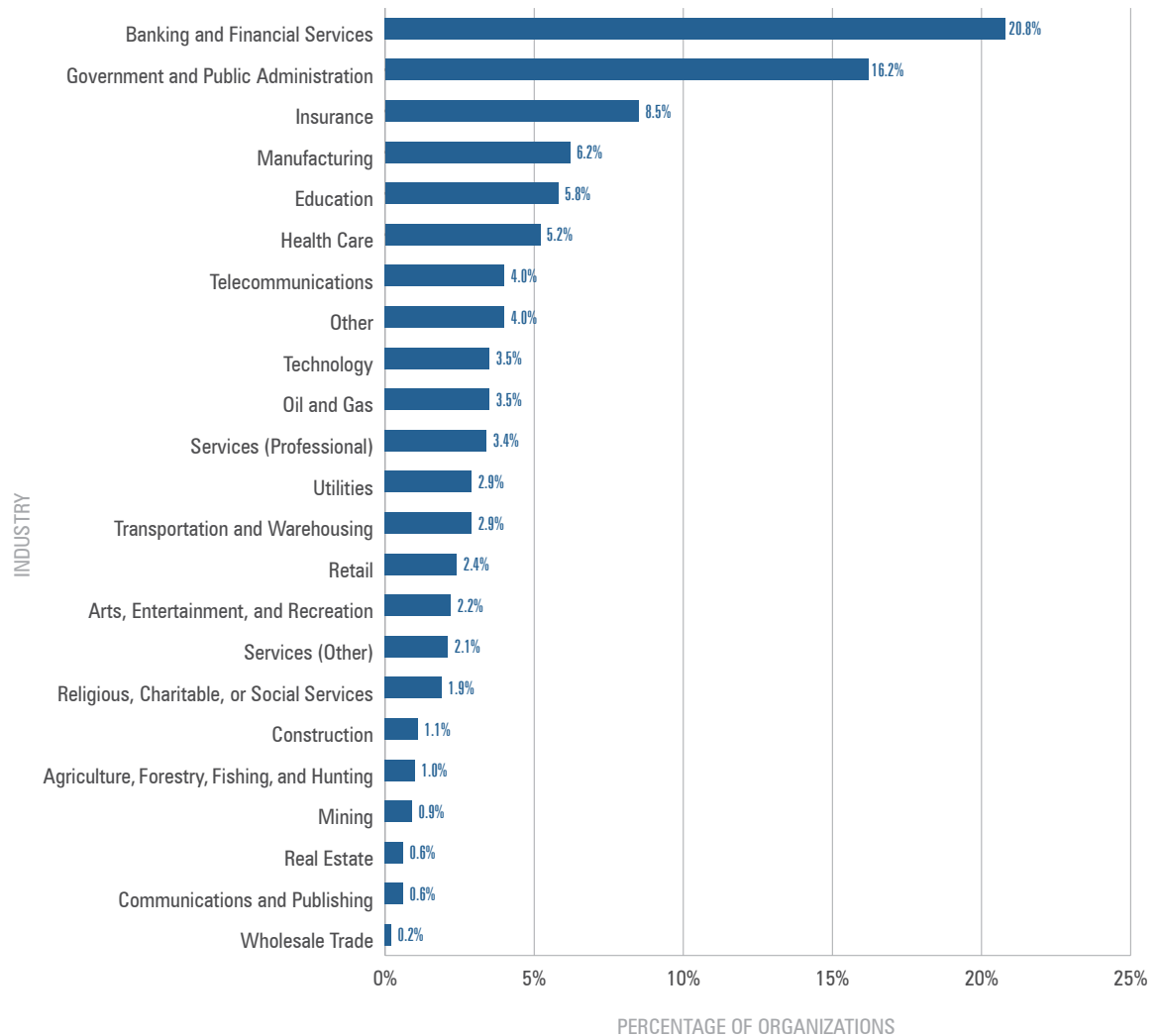


To provide context for the overall results of our study, the following charts illustrate basic information about survey respondents' organizations.

INDUSTRY OF RESPONDENTS' ORGANIZATIONS

Figure 1 shows the percentage of respondents by industry. Organizations in banking and financial services were most highly represented, followed by government/public administration and insurance. To help identify specific trends in investigation teams, several analyses in this report are broken down by industry.

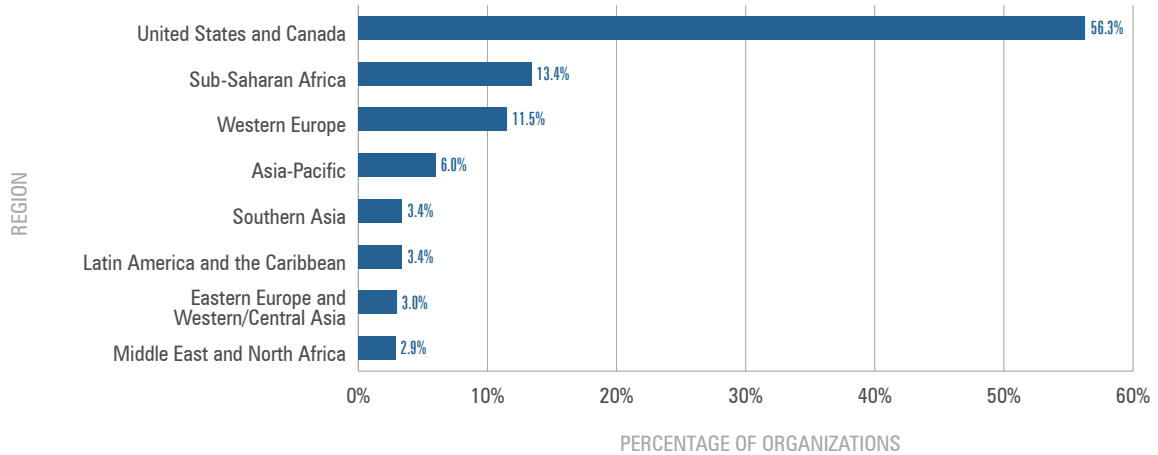
Figure 1: Industry of Organizations



REGION OF RESPONDENTS' ORGANIZATIONS

As shown in Figure 2, 56.3 percent of the investigation teams in our study were part of organizations in the United States and Canada. The second-highest region was Sub-Saharan Africa (13.4 percent), followed by Western Europe (11.5 percent).

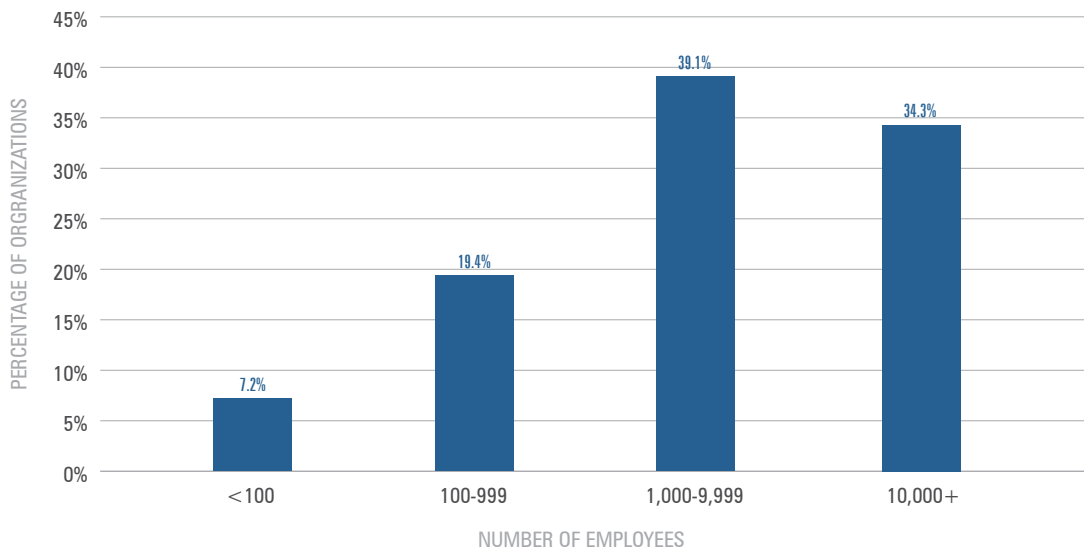
Figure 2: Region of Organizations



SIZE OF RESPONDENTS' ORGANIZATIONS

Internal fraud investigation teams require resources, so it is usually mid-size and large organizations (based on number of employees) that are able to maintain them. Figure 3 shows the percentage of organizations represented in our study based on staff size. Of these organizations, 7.2 percent had fewer than 100 employees, while 19.4 had 100 to 999 employees, 39.1 percent had 1,000 to 9,999 employees, and 34.3 percent had 10,000 or more employees.

Figure 3: Size of Organizations



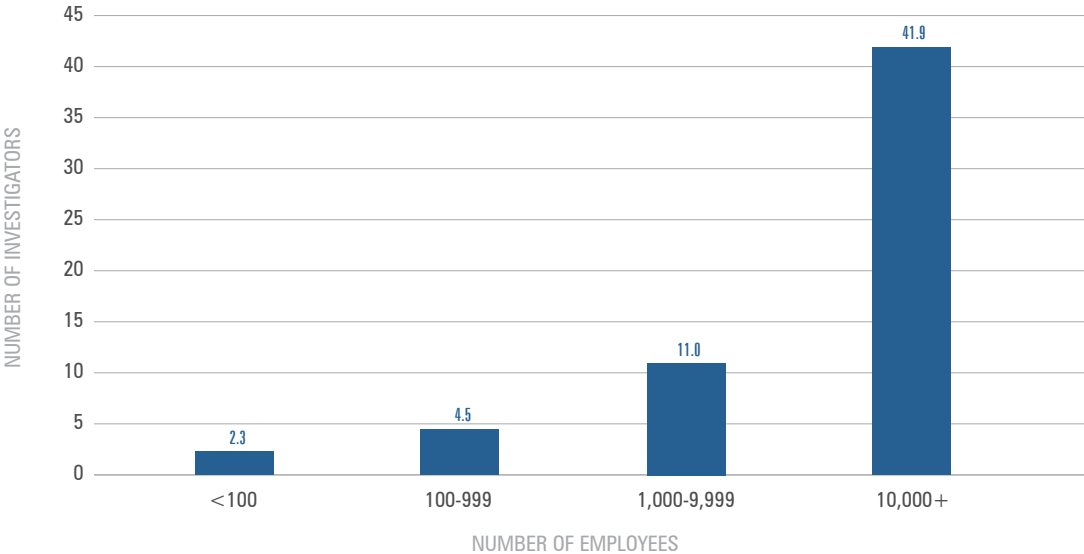
Structure of Internal Fraud Investigation Teams



NUMBER OF FRAUD INVESTIGATORS

One of the most fundamental—yet difficult—considerations when designing or improving a fraud investigation team is how many investigators are needed. This decision depends on many variables, such as overall fraud risk and financial resources available, but perhaps the most important factor is organization size. Figure 4 provides the average number of internal fraud investigators at organizations of different sizes. Not surprisingly, the larger the organization, the greater the number of fraud investigators respondents tended to have on staff. Teams at small organizations (defined as those with fewer than 100 employees) had an average of 2.3 fraud investigators on staff, with that number nearly doubling to 4.5 for mid-size organizations (100 to 999 employees). Organizations with the most employees (10,000 or more) averaged 41.9 fraud investigators on staff.

Figure 4: Average Number of Internal Fraud Investigators by Organization Size



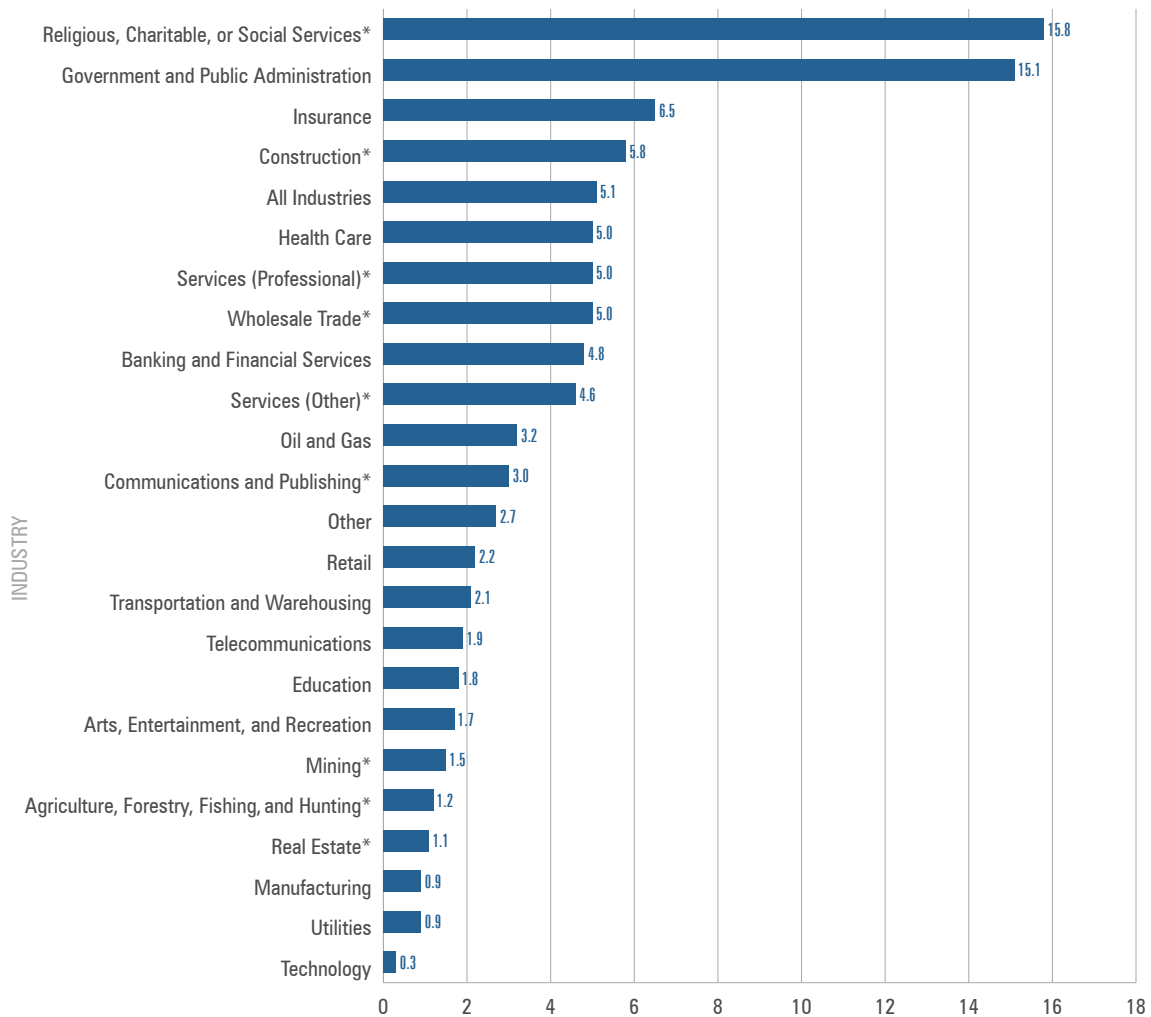
Average Number of Fraud Investigators by Industry

To help organizations get a more precise estimate of their peers' investigation teams, we wanted to further examine the relationship between the total number of employees and the number of investigators. We found that for all respondents with 100 or more employees, the average ratio of fraud investigators per thousand employees was 5.1 (i.e., for every one thousand employees on staff, organizations employ an average of 5.1 fraud investigators).¹ Given that industries have different fraud risks and levels of regulatory oversight, we also analyzed the ratio of fraud examiners per one thousand employees by industry. Figure 5 contains this information.

Note that the industries with asterisks had fewer than 10 responses for which we were able to calculate this ratio. While we included these results for what value they might provide, the smaller sample size makes these ratios less reliable. For instance, if we were to remove the single-highest reported ratio from the religious/charitable/social services industry, the average ratio would decrease from 15.8 to 8.3 fraud investigators per one thousand employees.

Respondents in the government/public administration industry also had a relatively high ratio of 15.1—more than twice the ratio of insurance organizations, the next-highest industry at 6.5. The industries with the lowest ratios were technology, utilities, and manufacturing, each of which had an average of less than one fraud investigator per one thousand employees.

Figure 5: Average Number of Investigators per Thousand Employees by Industry (in Organizations with 100+ Employees)



* Industry with <10 qualified survey responses

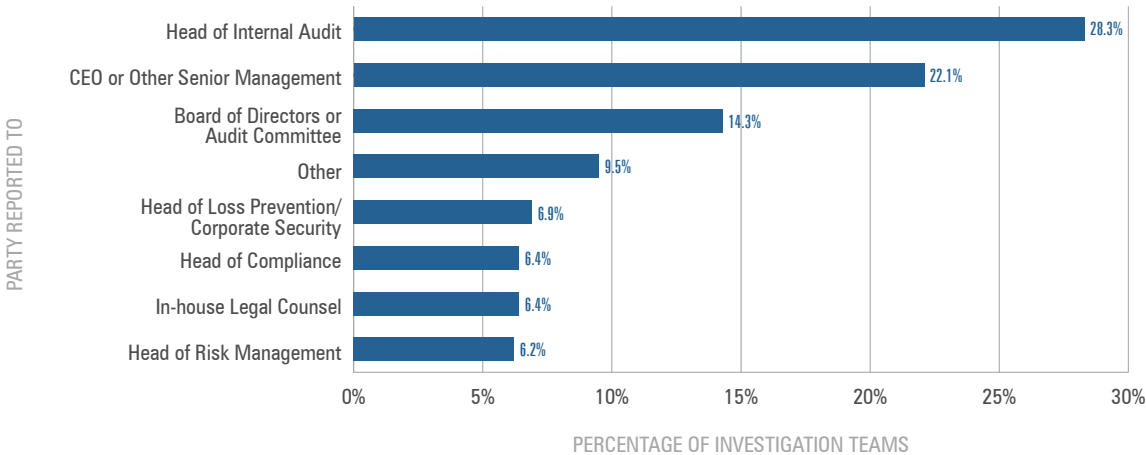
FRAUD INVESTIGATORS PER THOUSAND EMPLOYEES

¹ Organizations with fewer than 100 employees tended to have high variation in this ratio. Consequently, we excluded them from the calculated average.

PARTY TO WHICH THE INVESTIGATION TEAM REPORTS

Another key determination in organizing an internal fraud team is deciding who oversees investigations. Figure 6 shows that investigation teams most commonly report to the head of the internal audit department (in 28.3 percent of organizations). However, the data also suggests that organizations are fairly diverse with regard to who oversees the investigation team.

Figure 6: Party to Which the Investigation Team Reports



Party to Which the Investigation Team Reports by Industry

In addition to knowing the party to which investigation teams report in organizations overall, fraud examiners and management might also benefit from knowing the most common reporting structures within their industry. The top row in Figure 7 shows the party to which investigation teams reported in organizations overall, with each industry below it. The colors indicate the least common, somewhat common, and very common parties to which investigation teams in each industry report.

Figure 7: Party to Which the Investigation Team Reports by Industry

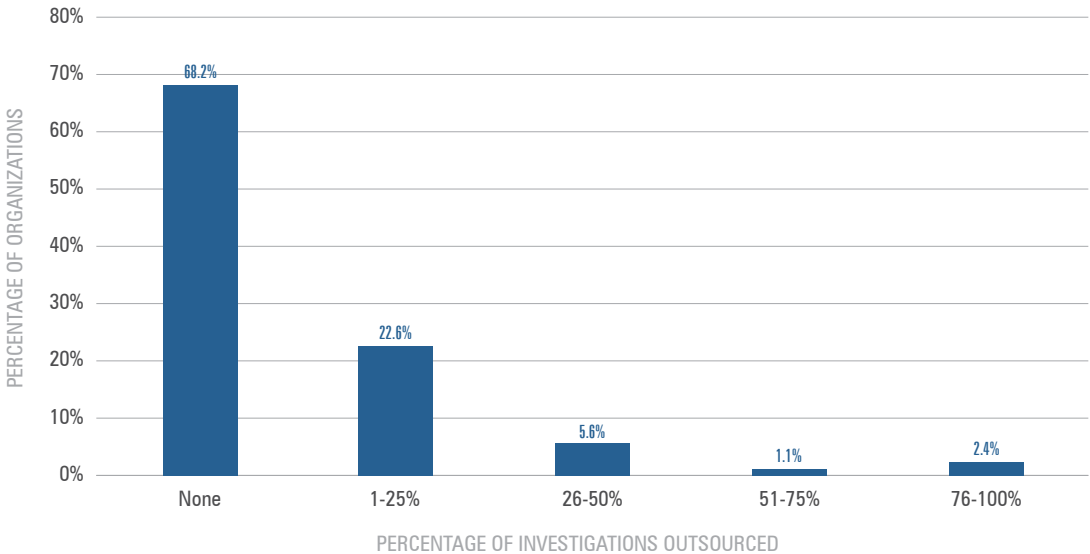
| | Number of Responses | Head of Risk Management | In-House Legal Counsel | Head of Compliance | Head of Loss Prevention/Corporate Security | Other | Board of Directors or Audit Committee | CEO or Other Senior Management | Head of Internal Audit |
|---|---------------------|-------------------------|------------------------|--------------------|--|-------|---------------------------------------|--------------------------------|------------------------|
| All Organizations | 566 | 6.2% | 6.4% | 6.4% | 6.9% | 9.5% | 14.3% | 22.1% | 28.3% |
| Agriculture, Forestry, Fishing, and Hunting | 7 | 0.0% | 14.3% | 0.0% | 28.6% | 14.3% | 14.3% | 0.0% | 28.6% |
| Arts, Entertainment, and Recreation | 13 | 23.1% | 7.7% | 0.0% | 23.1% | 0.0% | 23.1% | 23.1% | 0.0% |
| Banking and Financial Services | 114 | 17.5% | 1.8% | 7.0% | 13.2% | 5.3% | 9.6% | 21.9% | 23.7% |
| Communications and Publishing | 4 | 25.0% | 25.0% | 25.0% | 0.0% | 0.0% | 25.0% | 0.0% | 0.0% |
| Construction | 9 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 44.4% | 11.1% | 11.1% |
| Education | 35 | 0.0% | 2.9% | 5.7% | 2.9% | 17.1% | 25.7% | 5.7% | 40.0% |
| Government and Public Administration | 82 | 1.2% | 6.1% | 3.7% | 2.4% | 15.9% | 17.1% | 30.5% | 23.2% |
| Health Care | 22 | 9.1% | 4.5% | 13.6% | 0.0% | 0.0% | 31.8% | 13.6% | 27.3% |
| Insurance | 49 | 4.1% | 14.3% | 10.2% | 4.1% | 10.2% | 6.1% | 20.4% | 30.6% |
| Manufacturing | 40 | 0.0% | 7.5% | 10.0% | 0.0% | 12.5% | 5.0% | 20.0% | 45.0% |
| Mining | 7 | 0.0% | 28.6% | 0.0% | 28.6% | 0.0% | 14.3% | 0.0% | 28.6% |
| Oil and Gas | 21 | 0.0% | 4.8% | 9.5% | 9.5% | 0.0% | 9.5% | 23.8% | 42.9% |
| Other | 23 | 0.0% | 0.0% | 4.3% | 8.7% | 4.3% | 26.1% | 39.1% | 17.4% |
| Real Estate | 4 | 25.0% | 0.0% | 0.0% | 0.0% | 25.0% | 0.0% | 0.0% | 50.0% |
| Religious, Charitable, or Social Services | 13 | 0.0% | 0.0% | 0.0% | 0.0% | 15.4% | 23.1% | 23.1% | 38.5% |
| Retail | 17 | 11.8% | 11.8% | 0.0% | 11.8% | 0.0% | 17.6% | 29.4% | 17.6% |
| Services (Other) | 10 | 0.0% | 0.0% | 0.0% | 0.0% | 20.0% | 0.0% | 50.0% | 30.0% |
| Services (Professional) | 15 | 0.0% | 20.0% | 6.7% | 0.0% | 6.7% | 20.0% | 46.7% | 0.0% |
| Technology | 19 | 0.0% | 21.1% | 10.5% | 0.0% | 10.5% | 0.0% | 15.8% | 42.1% |
| Telecommunications | 24 | 12.5% | 0.0% | 12.5% | 20.8% | 12.5% | 12.5% | 8.3% | 20.8% |
| Transportation and Warehousing | 13 | 0.0% | 0.0% | 7.7% | 7.7% | 0.0% | 7.7% | 38.5% | 38.5% |
| Utilities | 18 | 0.0% | 5.6% | 0.0% | 0.0% | 16.7% | 16.7% | 16.7% | 44.4% |
| Wholesale Trade | 2 | 0.0% | 50.0% | 0.0% | 0.0% | 0.0% | 50.0% | 0.0% | 0.0% |

LESS COMMON MORE COMMON

OUTSOURCED INVESTIGATIONS

Even when organizations have internal investigation teams, there might be instances when outsourcing an investigation is the best option. Figure 8 demonstrates that the majority (68.2 percent) of organizations with internal fraud teams do not outsource any investigations; only 3.5 percent of organizations outsource more than half of their fraud investigations.

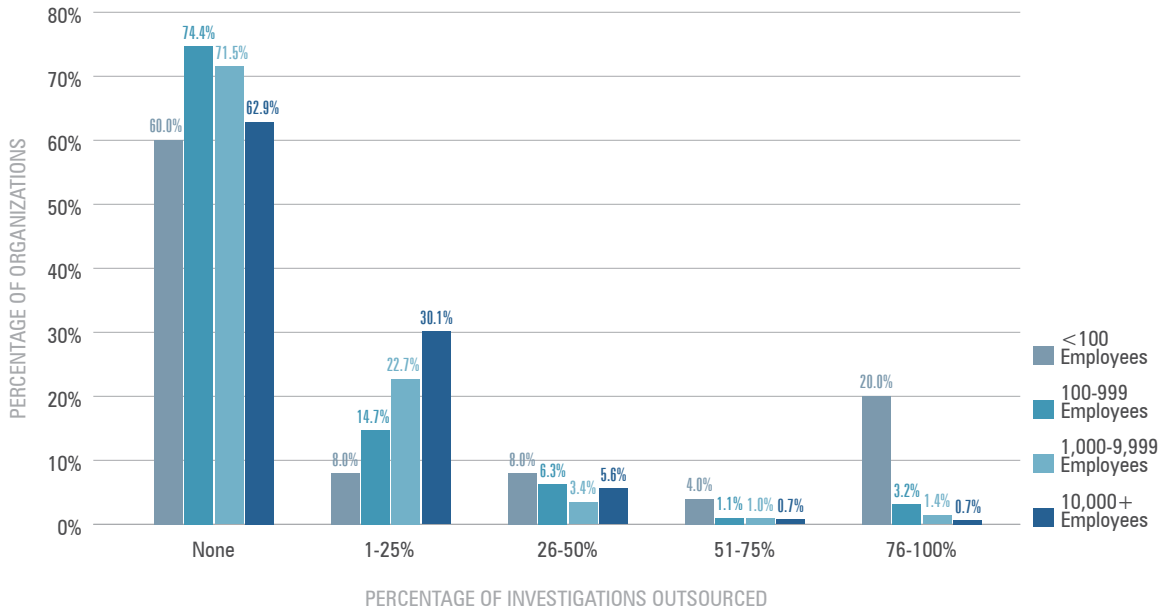
Figure 8: Percentage of Fraud Investigations Outsourced



Outsourced Investigations by Organization Size

Our data indicates that an organization's size is a significant factor regarding the percentage of investigations that are outsourced. As seen in Figure 9, small organizations are the most likely to outsource fraud investigations, with 20 percent of these organizations outsourcing more than three-quarters of their cases, compared to just 3.2 percent of organizations with 100 or more employees, the next-highest-size group. Interestingly, mid-size organizations (both those with 100 to 999 employees and 1,000 to 9,999 employees) are more likely to keep all investigations in-house than organizations with 10,000 or more employees.

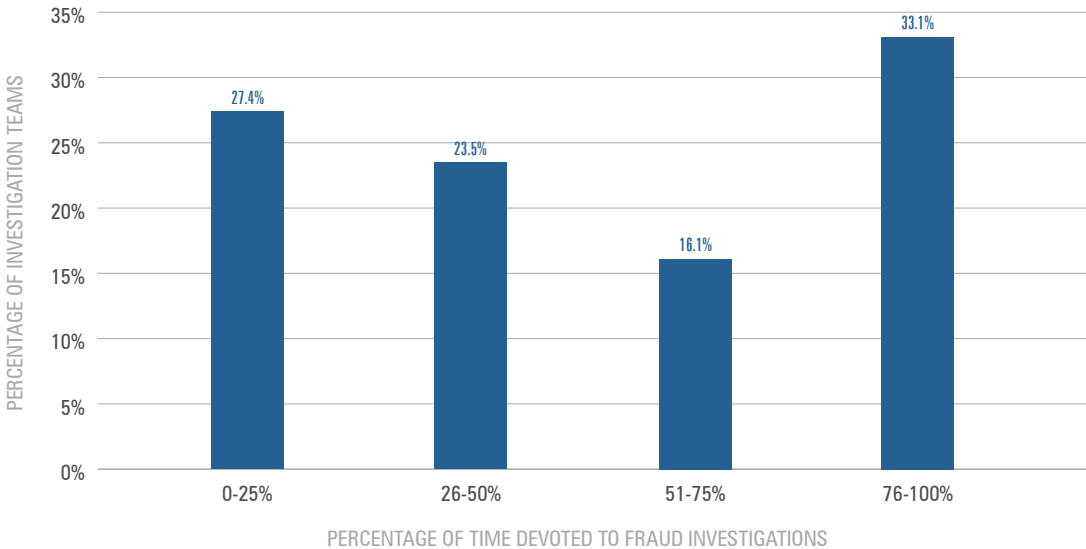
Figure 9: Percentage of Fraud Investigations Outsourced by Organization Size



TIME DEVOTED TO INVESTIGATIONS

We asked respondents what percentage of time their organization’s investigators devoted to fraud investigations. The results shown in Figure 10 suggest that fraud investigators take on various roles at organizations, with 50.9 percent of investigators spending half or less of their time specifically on fraud investigations. Many fraud investigators also have experience in accounting, auditing, and investigating other forms of misconduct—skills they might use to fill multiple roles at their organizations.

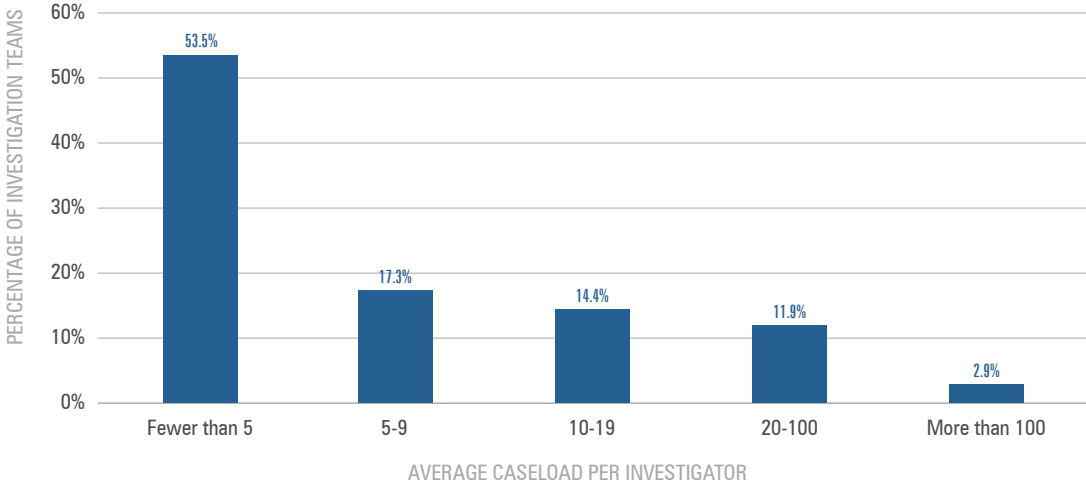
Figure 10: Investigation Team’s Time Devoted to Fraud Investigations



CASELOAD

An important part of establishing a successful fraud investigation team is determining how many active cases each fraud investigator should handle at a time. As reflected in Figure 11, the majority of our respondents indicated that the average caseload per fraud investigator was fewer than five. A relatively low number of organizations (14.8 percent) reported a caseload of 20 or more.

Figure 11: Average Caseload per Fraud Investigator



Investigation Team Results

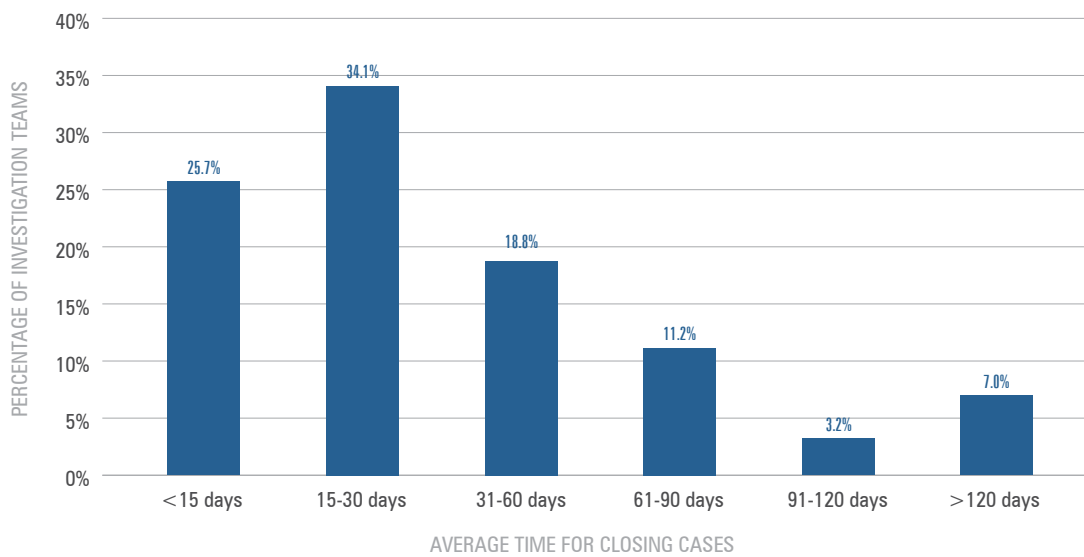


The basic objectives of fraud investigation teams are to preserve the integrity of the organization and to mitigate losses due to fraud. To ensure its ability to achieve these goals, a team must be able to evaluate its results and look for ways to improve. There are many ways to measure a team's effectiveness.

TIME TO CLOSE A CASE

Management might want to evaluate an investigation team by the time it takes the team to close fraud cases. Some cases are more complex than others, but knowing the average number of days it takes to close an investigation can serve as a useful benchmark. As shown in Figure 12, 59.8 percent of fraud investigation teams take an average of 30 days or less to close a case.

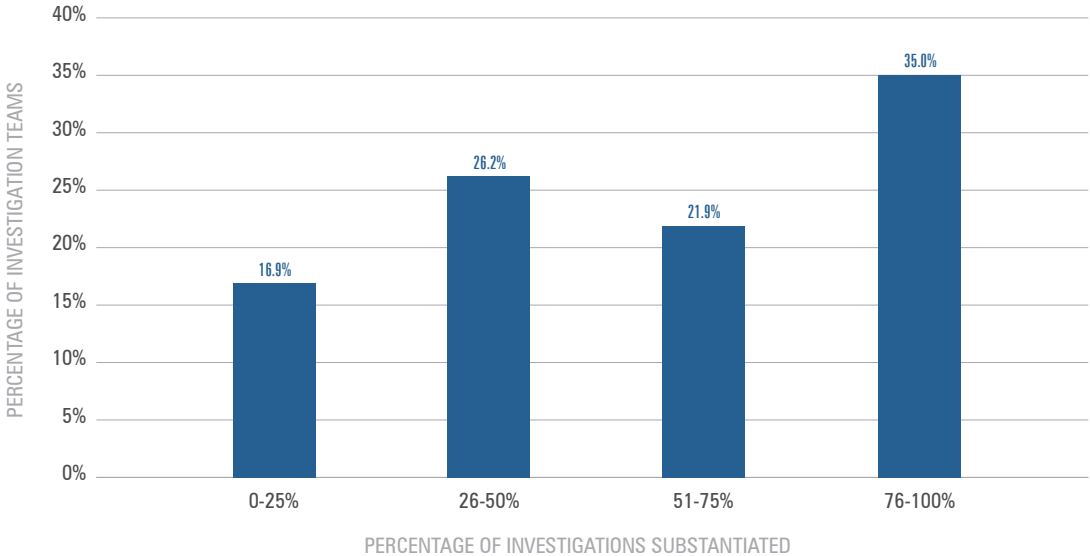
Figure 12: Average Number of Days to Close a Fraud Case



INVESTIGATIONS SUBSTANTIATED

To get another view into the relative success rate of fraud investigation teams, we asked respondents to provide the percentage of cases substantiated by internal fraud investigators. Figure 13 shows that the percent of cases substantiated varied significantly among organizations, but the plurality of organizations substantiated more than 75 percent of fraud cases.

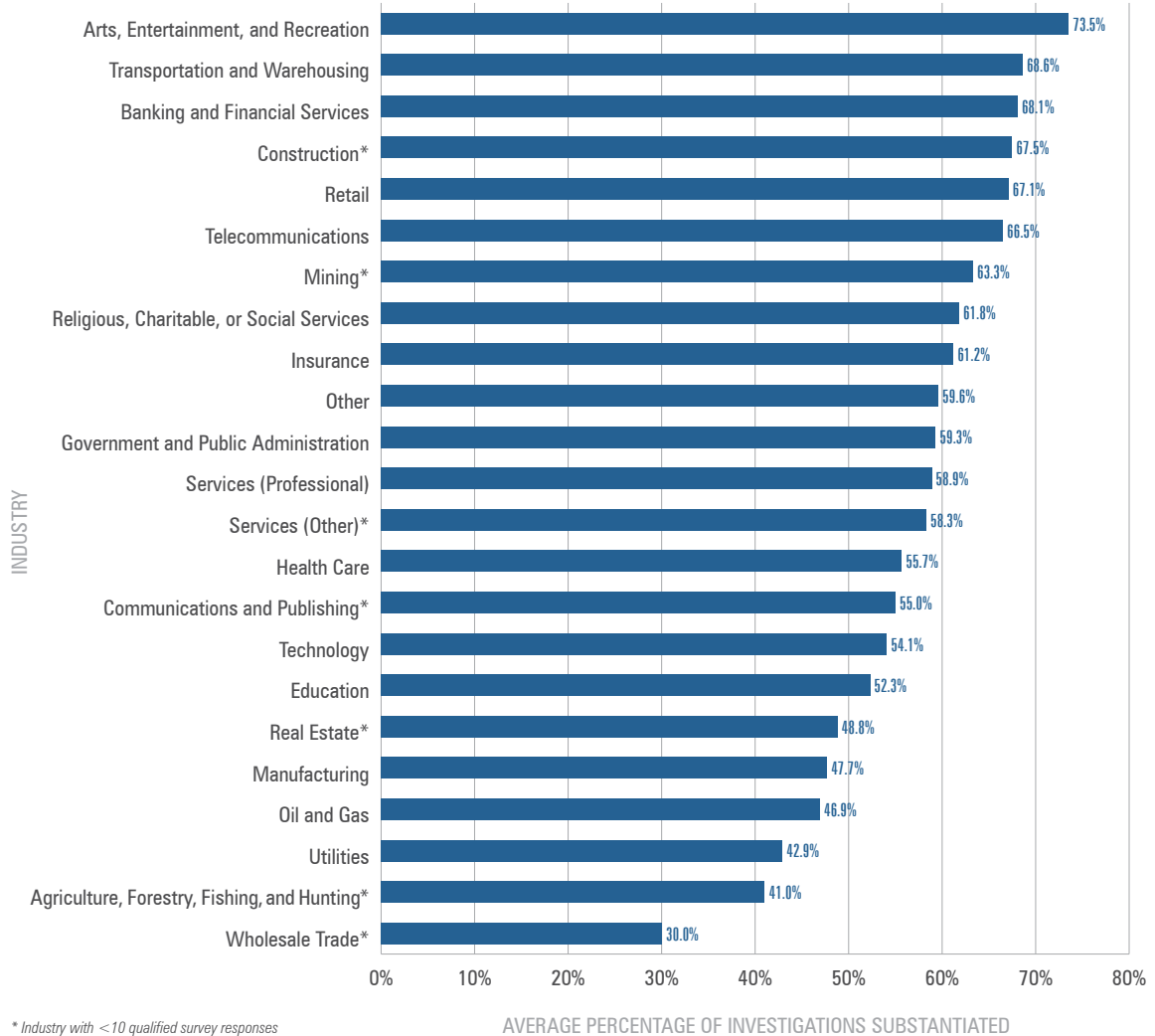
Figure 13: Percentage of Fraud Investigations Substantiated



Investigations Substantiated by Industry

Figure 14 shows the percentages of fraud investigations substantiated within each industry. The arts, entertainment, and recreation sector had the highest percentage of cases substantiated at 73.5 percent, with the transportation and warehousing industry having the next-highest substantiation percentage, with 68.6 percent, followed by the banking and financial services industry, at 68.1 percent. Interestingly, the 12 industries with the lowest percentage of investigations substantiated all had fewer fraud investigators per one thousand employees than the overall average of 5.1 (see Figure 5).

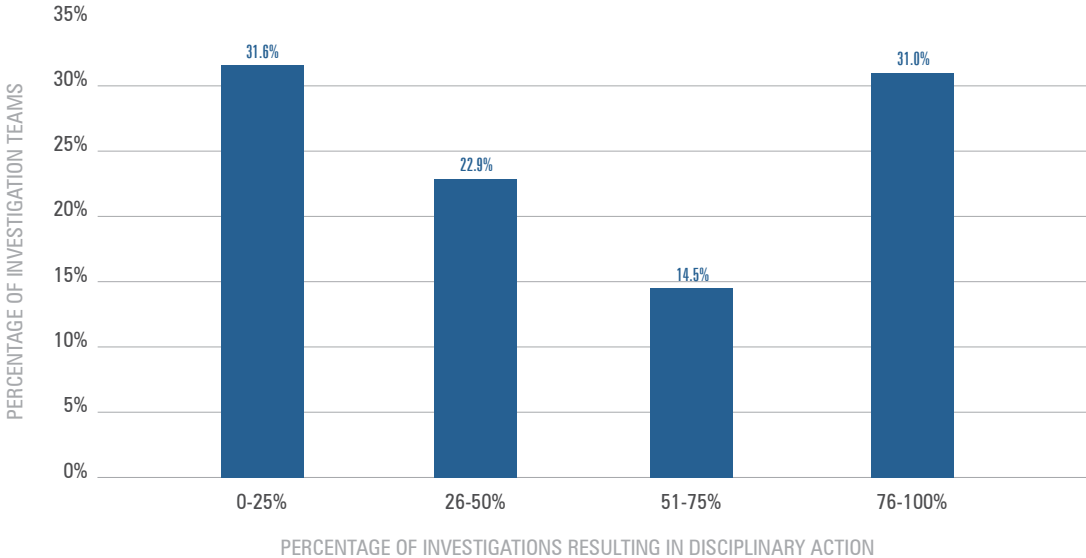
Figure 14: Average Percentage of Investigations Substantiated by Industry



DISCIPLINARY ACTIONS

Another way to evaluate the success of investigation teams is to determine what percentage of investigations result in disciplinary action. Of the fraud investigation teams represented in our survey, 54.5 percent reported that fewer than half of their investigations resulted in disciplinary actions (see Figure 15). However, for a substantial percentage (31 percent) of these teams, more than three-quarters of their fraud cases resulted in disciplinary action. Part of this disparity might be due to the varying effectiveness of fraud investigations, but different rates of external fraud could also play a role (i.e., there might be a lower chance of disciplinary action in external fraud cases).

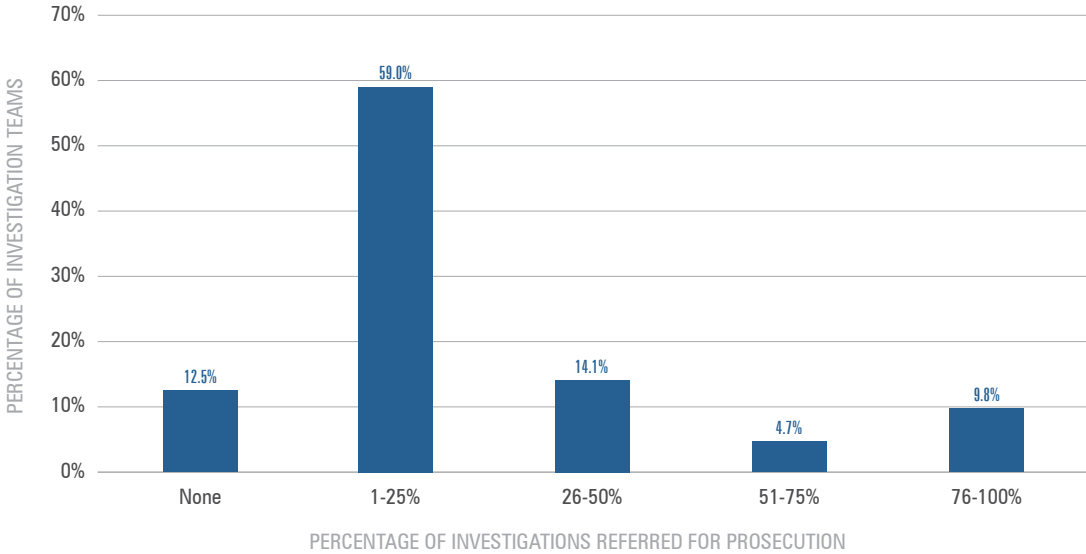
Figure 15: Fraud Investigations Resulting in Disciplinary Action



REFERRALS FOR PROSECUTION

We also asked respondents what percentage of their fraud investigations resulted in referrals for prosecution. Figure 16 shows that most respondents—71.5 percent—refer 25 percent or less of their cases for prosecution, with 12.5 percent not referring any cases. There are many reasons why an organization might decide not to prosecute, including lack of evidence to meet criminal evidentiary standards or a desire to maintain confidentiality. However, referring serious crimes for prosecution can prevent the suspect from being placed in a fiduciary position again and can also act as a deterrent for other potential fraudsters. Almost 10 percent of organizations referred more than three-quarters of their fraud cases for prosecution.

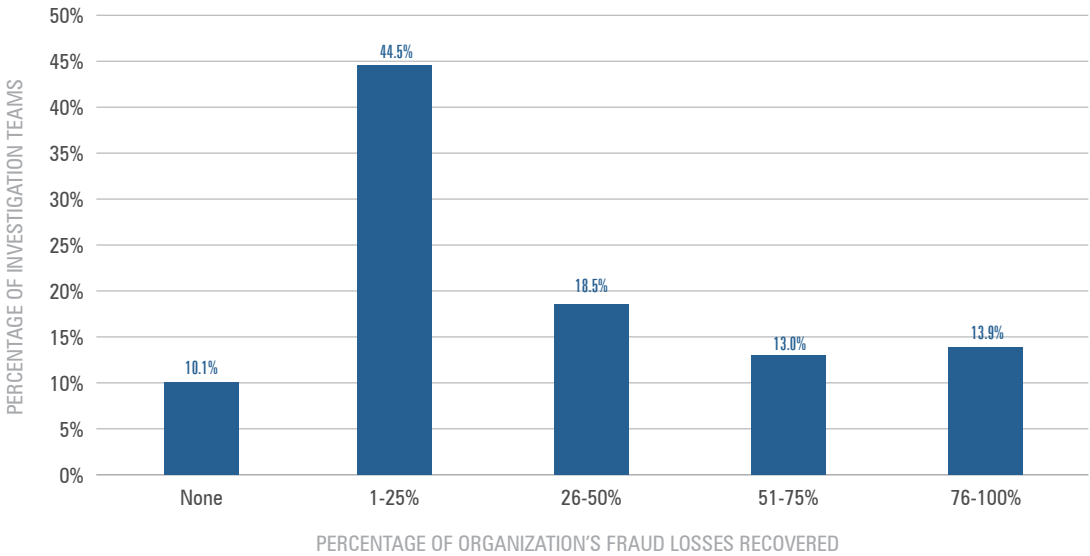
Figure 16: Investigations Referred for Prosecution



RECOVERY OF FRAUD LOSSES

Substantiating a fraud is one thing, but recovering losses is another. In some cases, organizations find that it would not be worth the effort to pursue a recovery, such as when the fraudster has spent or hidden the ill-gotten gains, making a settlement or judgment difficult to enforce. Figure 17 shows that about 10 percent of organizations recover nothing from fraud investigations, and more than half recover 25 percent or less.

Figure 17: Recovery of Fraud Losses

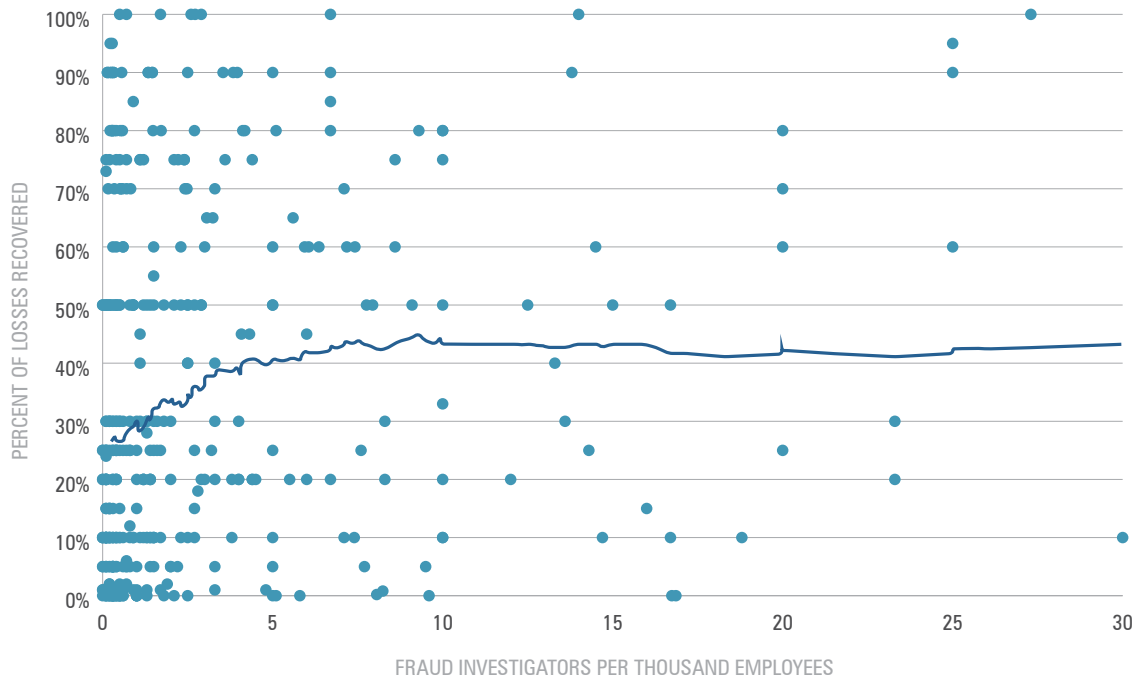


Recovery of Losses and Investigators per One Thousand Employees

An inevitable question when establishing or adjusting an internal fraud investigation team is: “How many people do we need?” To answer this question accurately, it helps to know the marginal value of adding fraud investigators. One way to estimate this value is to assess the relationship between the ratio of investigators to employees and the fraud losses that teams recover. The scatter chart in Figure 18 uses a moving average trendline to show how losses recovered increase (up to a point) as the ratio of fraud investigators to total employees increases. This analysis indicates that losses recovered increase sharply up to around five fraud investigators per one thousand employees, with about 40 percent recovery. After that, the increase in recovered losses is more gradual, plateauing at about ten fraud investigators per one thousand employees and a 44 percent recovery.

Even in light of this analysis, the value of an internal fraud investigation team might be understated by looking solely at fraud losses recovered; doing so does not take into account, for instance, the deterrent effect of having a high perception of detection. While this information can help organizations estimate an ideal size for their internal fraud teams, the specific needs of the organization must also be considered.

Figure 18: Investigators per Thousand Employees and Percentage of Losses Recovered



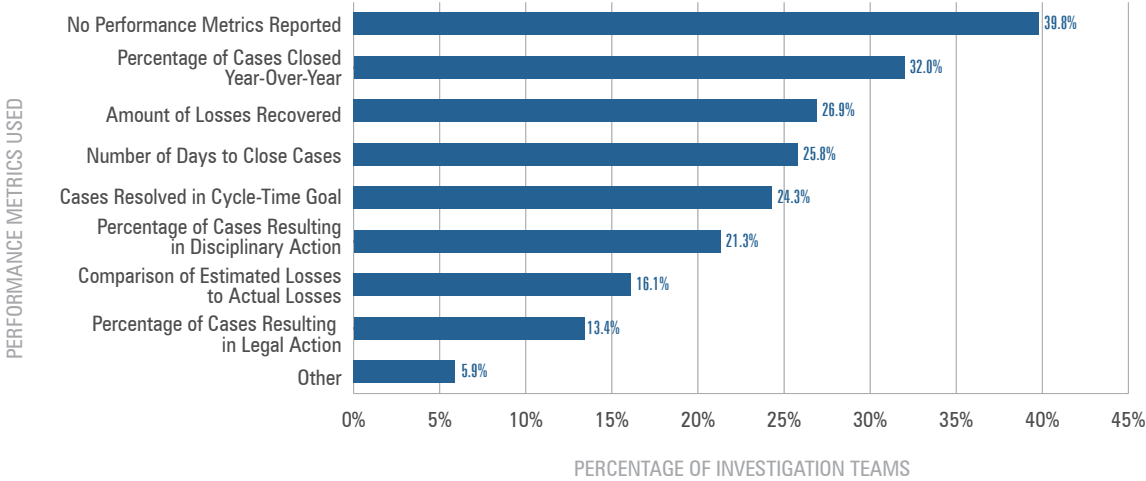
Evaluating the Effectiveness of Investigation Teams



PERFORMANCE METRICS USED

It is important for management to formally measure and assess the effectiveness of all departments and groups, including fraud investigation teams. We asked respondents what metrics, if any, are used to evaluate their fraud investigation team’s performance. Figure 19 shows these results. Of the respondents, 39.8 percent did not report any metric, while the most commonly used metric was percentage of cases closed year-over-year.

Figure 19: Investigation Performance Metrics Used

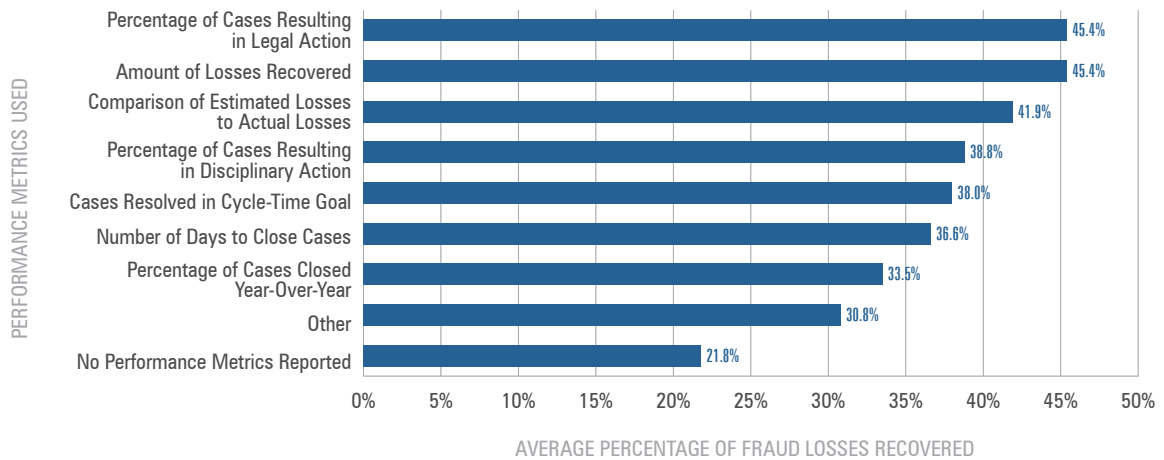


EFFECTIVENESS OF PERFORMANCE METRICS

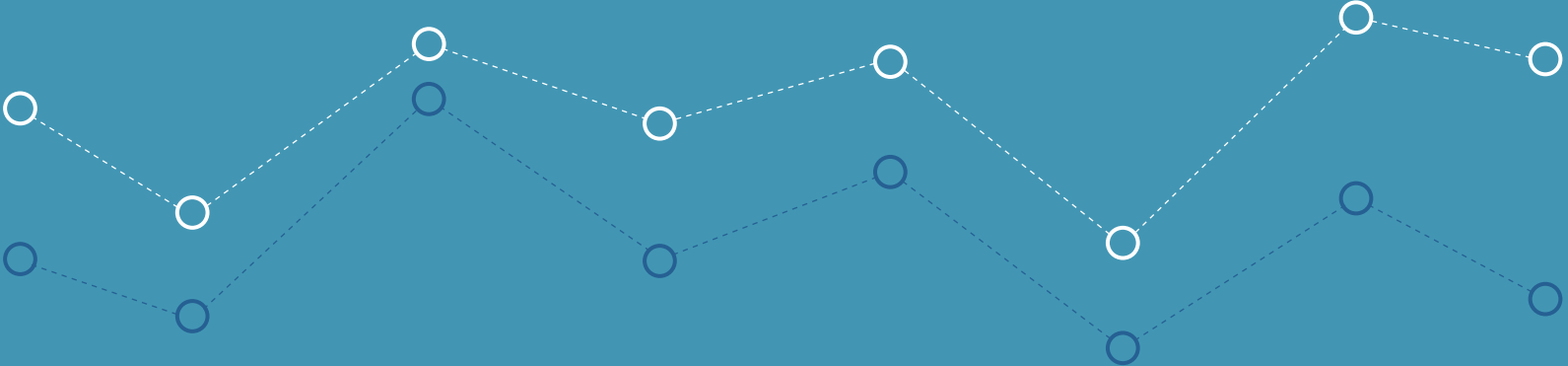
We also analyzed the effectiveness of performance metrics themselves by looking at the average percentage of fraud losses recovered based on the metrics that organizations had in place, as shown in Figure 20. The two metrics associated with the highest average percentage of losses recovered are percentage of cases resulting in legal action and amount of losses recovered. An interesting trend in this data is that performance metrics that focused on the *quality* of the outcome of investigations (e.g., legal action, recovery or change of expected losses, and disciplinary action) corresponded with greater loss recovery than performance metrics based on the *quantity* of cases completed (e.g., cases resolved in a cycle-time goal, number of days to close cases, and percentage of cases closed year-over-year). Recall from Figure 19 that percentage of cases closed year-over-year is the most commonly reported metric, but organizations using it averaged the lowest percentage of losses recovered (33.5 percent) compared to any other specifically identified metric.

Another significant finding is the relatively low percentage of fraud losses recovered for organizations that did not report any performance metrics. Given that almost 40 percent of respondents did not report any performance metric, there appears to be substantial potential for these organizations to improve their recovery of fraud losses by implementing a more formal performance review process.

Figure 20: Effectiveness of Investigation Performance Metrics Based on Percentage of Losses Recovered



About the ACFE



FOUNDED IN 1988 by Dr. Joseph T. Wells, CFE, CPA, the ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with more than 75,000 members in more than 150 countries, the ACFE is reducing business fraud worldwide and providing the training and resources needed to fight fraud more effectively.



The ACFE provides educational tools and practical solutions for anti-fraud professionals through initiatives including:

- Global conferences and seminars led by anti-fraud experts
- Instructor-led, interactive professional training
- Comprehensive resources for fighting fraud, including books, self-study courses and articles
- Leading anti-fraud publications, including *Fraud Magazine*[®], *The Fraud Examiner* and *FraudInfo*
- Local networking and support through more than 170 ACFE chapters worldwide
- Anti-fraud curriculum and educational tools for colleges and universities

The positive effects of anti-fraud training are far-reaching. Clearly, the best way to combat fraud is to educate anyone engaged in fighting fraud on how to effectively prevent, detect and investigate it. By educating, uniting and supporting the global anti-fraud community with the tools to fight fraud more effectively, the ACFE is reducing business fraud worldwide and inspiring public confidence in the integrity and objectivity of the profession. The ACFE offers its members the opportunity for professional certification. The Certified Fraud Examiner (CFE) credential is preferred by businesses and government entities around the world and indicates expertise in fraud prevention and detection.

MEMBERSHIP

Immediate access to world-class anti-fraud knowledge and tools is a necessity in the fight against fraud. Members of the ACFE include accountants, internal auditors, fraud investigators, law enforcement officers, lawyers, business leaders, risk/compliance professionals and educators, all of whom have access to expert training, educational tools and resources. More than 75,000 members from all over the world have come to depend on the ACFE for solutions to the challenges they face in their professions. Whether their career is focused exclusively on preventing and detecting fraudulent activities or they just want to learn more about fraud, the ACFE provides the essential tools and resources necessary for anti-fraud professionals to accomplish their objectives. To learn more, visit [ACFE.com](https://www.acfe.com) or call (800) 245-3321 / +1 (512) 478-9000.

CERTIFIED FRAUD EXAMINERS

Certified Fraud Examiners (CFEs) are anti-fraud experts who have demonstrated knowledge in four critical areas: Financial Transactions and Fraud Schemes, Law, Investigation, and Fraud Prevention and Deterrence. In support of CFEs and the CFE credential, the ACFE:

- Provides bona fide qualifications for CFEs through administration of the CFE Exam
- Requires CFEs to adhere to a strict code of professional conduct and ethics
- Serves as the global representative for CFEs to business, government and academic institutions
- Provides leadership to inspire public confidence in the integrity, objectivity and professionalism of CFEs





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