

## **Which Fraud Investigation Procedures Are Most Often Performed?**

### **An Exploratory Study**

*Dr. Lynn H. Clements*

*Dr. Michael Knudstrup, PhD\**

Fraud is a problem that costs an estimated \$3.7 trillion each year globally (ACFE 2014, 8). Fraud deterrence techniques may help to limit the opportunity for fraud, but the possibility for fraud is ever present. Investigations are necessary and conducted in order to detect fraud. Fraud investigations are conducted by different types of professionals and for a variety of reasons. For example, Certified Public Accountants (CPAs) must design and perform an audit that provides reasonable assurance that fraud, which is material to the financial statements, will be detected (AICPA 2012). At times, a client may engage a CPA, Certified in Financial Forensics (CFF), or Master Analyst in Financial Forensics (MAFF) in the search for suspected fraud. Certain other professionals, such as Certified Fraud Examiners (CFE), Certified Forensic Accountant (CrFA), and Certified Internal Auditors (CIA), may spend a majority of their time in the search for fraud.

Some organizations have entire staffs devoted to the detection of frauds. Regardless of how a fraud detection investigation begins, the investigation proceeds “when there is predication, meaning that there are symptoms or indications (red flags) that a fraud may be occurring.” (Albrecht et al., 2016, 215; Crumbley et al., 2015, 5-8). Once there is predication, it is prudent to investigate the potential fraud in order to determine the “who, why, how, and how much” questions of the detected fraud (Albrecht et al., 2016, 215; Crumbley et al., 2015, 5-8).

“The detection of fraud includes steps or actions taken to discover a fraud that has been or is being committed...[and] usually begins by identifying symptoms, indicators, or red flags that tend to be associated with fraud” (Albrecht et al., 2016, 79). The selected procedures are tailored to the type of fraud suspected, and an investigator may change his or her planned procedures as the investigation continues.

While it is unlikely that any two investigations will have exactly the same methods and techniques in gathering evidence, we posit that there may be a set of commonly performed procedures that are generally employed in some, if not all, fraud investigations. In order to explore our assumption, we asked fraud investigators about their commonly used investigation procedures. We attempted to identify: 1) a body of common procedures; 2) the most common procedures; and 3) the procedures that are performed in (nearly) every investigation of suspected fraud.

The remainder of this article is organized as follows. The next section explains the methodology of the survey and its administration. Then, we report our findings. The final section provides implications, limitations, and potential areas of future research.

---

\* The authors are, respectively, Professor and Assistant Professor of Accounting at Florida Southern College.

## **Methodology**

### ***The Survey Instrument***

A list of thirty-six fraud investigation procedures was developed using common fraud and forensic accounting textbooks (Albrecht et al., 2016, Crumbley et al., 2013) and discussions with a number of fraud investigation experts including a former FBI agent, several CFEs, and several CPAs. The list was further developed by surveying a small number of fraud investigation experts, and then with minor revisions the list was administered to a group of local CPAs in order to develop the survey instrument. The final survey is included as Appendix A.

We administered the survey in two different ways. First, we asked the participants at six continuing professional education meetings to complete the survey anonymously. Those meetings included local ACFE (Association of Certified Fraud Examiners) meetings and an annual sponsored by a local chapter of the Institute of Internal Auditors (IIA). In order to encourage participation, a small prize was offered to participants in a raffle. Secondly, the survey was administered to attendees at a national fraud conference sponsored by a university (including CPAs, CIAs, CFEs, internal auditors, and academic accounting faculty) with the chance to win another raffle prize. Table I provides the percentages of responses from each of these two groups of respondents. [see Table I, pg 171]

## **Findings**

There were 392 attendees and 201 participated (fifty-one percent), although not all completed every question. The respondents included ninety-five men (forty-seven percent), 104 women (fifty-two percent) and two who did not indicate gender (one percent). Of the 201 respondents, 170 reported that they have uncovered at least one fraud (eighty-five percent) and 138 “sometimes perform techniques to search for fraud” (sixty-nine percent). Table II provides the demographic statistics of the participants. [see Table II, pg 171]

Table III provides a listing of the thirty-six procedures. The participants were instructed: “Please think about the fraud investigation procedures you perform. For each of the following procedures, please indicate whether or not you normally perform the procedure when you are investigating suspected fraud, and, if so, how often, by circling one answer using the following scale where 1 = never and 5 = always.” Table III ranks the thirty-six procedures in order of their means. The most common procedure is, “Examine cancelled checks/bank statements” which had a mean of 3.83 out of five. Six procedures had a mean of 3.50 or higher and are the most distinctive procedures presented in the survey. [see Table III, pg 172]

The participants were then asked the question, “Which THREE of the investigation procedures described (in the survey), above, are the most important to you?” Of those responses, two procedures stood out as most important. Fifty-eight (twenty-nine percent) reported that a search to determine if management is overriding controls is one of the three top procedures, and fifty-six (twenty-eight percent) consider the examination of cancelled checks and/or bank statements to be one of the top three most performed procedures. All of the procedures in the list were considered by at least one respondent to be in their top three most performed, with the number of responses ranging between fifty-eight (twenty-nine percent) and one (0.5%). Table IV displays the list of procedures ranked in order of how many participants considered them to be in the top three most important. [see Table IV, pg 173]

Considering the possibility we may have missed some important procedures in our listing of thirty-six, we asked the open-ended question, “Are there any other fraud investigation procedures you ALWAYS apply? If so, please describe them.” The listing of these other fraud investigation procedures is provided in Table V. Some of the suggestions have been restated for brevity. We observed that twenty of these suggested procedures can be categorized as procedures performed in the interview and/or inquiry areas of investigation which, according to Albrecht et al., “are usually helpful in investigating all types of frauds...” (2016, 216). There were two suggestions in each of the following classifications: surveillance,

internal control, and social media. Finally, there were two suggestions that were only performed by law enforcement personnel. [see Table V, pg 174]

### **Implications, Limitations, and Areas for Future Research**

#### ***Implications for Fraud Investigators***

The “Report to the Nations” published biannually by the ACFE is a valuable resource for fraud investigators and general business people, providing statistics about the classifications of organizational fraud, the fraud perpetrators, and the victim organizations (2014, 6). However, this report does not provide direction for the detection of fraud. Where then, can an inexperienced fraud investigator learn how to investigate? We hope that Table III, “Fraud Investigation Procedures in order of the Frequency with which they are Performed,” may become a type of industry standard—useful in planning investigations, and possibly as the beginning of an audit program check sheet. We hope these tables will encourage all fraud investigators to reexamine their investigation procedures.

#### ***Implications for Training Future Fraud Investigators***

For new and inexperienced fraud investigators (such as staff accountants in CPA firms, staff internal auditors, current law enforcement without fraud experience, and retiring law enforcement or accountants who would like to develop a fraud investigation practice), Tables III, IV, and V may be helpful in developing plans of action. At a minimum, reading through the listed procedures and the comments by experienced professionals may help to create their own particular investigation protocols.

#### ***Implications for Academia***

The number of college and university courses in the areas of fraud and forensic accounting continues appears to be increasing. Tables III, IV, and V may be useful to educators to spark discussions about useful fraud investigation techniques and to serve as reference lists for students beginning a career in fraud investigation. Sharing the list in Table IV, “Most Important (i.e., Top 3) Procedures,” may help to inform the students and educators of the relative importance of these techniques.

#### ***Limitations and Areas for Future Research***

With every study, there are inherent limitations. The survey respondents were primarily from two southeastern states, and they may not be representative of all fraud investigators. Also, while the attempt was made to include all common procedures and to ask for other procedures, possibly there are additional procedures not included here. Finally, the sample size is relatively small. We encourage future research to include some of the other procedures revealed in response to the open-ended question and also administering the (revised) survey in other geographical areas (including other countries). We also encourage the ACFE to consider including some of these questions in their biannual survey (ACFE 2014).

### **Conclusion**

We asked fraud investigators about the procedures they consider to be important in the investigation of fraud via a questionnaire format. Our purposes were threefold to identify: 1) fraud investigation procedures normally performed; 2) those procedures that are always performed; and 3) those procedures that are considered to be the “most important.” Our results are summarized into three tables and have implications for current fraud investigators and in the training of future fraud investigators and academia. While no two fraud investigations are exactly alike, our findings may provide a beginning point and overarching perspective for most, if not all, fraud investigations.

<b>Table I</b>			
<b>Responses by Class of Respondents</b>			
	<b>#Attendees</b>	<b>#Participants</b>	<b>%Participation</b>
Continuing Professional Education Seminars	237	151	64%
National Fraud Conference	155	45	29%

<b>Table II</b>		
<b>Demographics</b>		
Men	95	47%
Women	104	52%
[Did not answer gender question]	2	1%
	201	99%
Uncovered at least one fraud	170	85%
Haven't uncovered at least one fraud	31	15%
	201	100%
[At least] sometimes perform techniques to search for fraud	138	69%
Do not perform techniques to search for fraud	60	30%
[Did not answer]	3	1%
	201	100%

<b>Table III</b>	
<b>Fraud Investigation Procedures in order of the Frequency with which they are Performed</b>	
	<b>Mean*</b>
Examine cancelled checks/bank statements.	3.83
Examine documents, looking for erasures, alterations and other oddities.	3.72
Examine credit card receipts.	3.69
Search for management overriding of controls.	3.68
Examine expense invoices.	3.64
Examine purchase documents, where applicable.	3.58
Search for people exhibiting unusual behavior.	3.49
Compare subsidiary ledgers to see if they agree with the general ledger.	3.42
Examine endorsements on canceled checks.	3.38
Search for extravagant lifestyles.	3.32
Examine copies where originals should be filed and/or where there are telltale lines from a copier when a document has been pieced together.	3.24
Audit general journal entries.	3.24
Search for unusual turnover (in customers, management, and/or vendors).	3.21
Examine payrolls records (e.g., W2s, W9s, 941s and 940s).	3.11
Review customer complaints.	3.11
Examine buy/sale agreements, where applicable.	3.03
Investigate suppliers (vendors) to find fictitious vendors.	2.98
Apply ratio analysis, horizontal analysis, and/or vertical analysis.	2.96
Examine shipping documents, where applicable.	2.93
Examine brokerage account statements, where applicable.	2.90
Examine cash register tapes, where applicable.	2.89
Examine employee time cards (or time clock records).	2.88
Examine Form 1099s.	2.85
Search for employees who do not take vacations.	2.82
Measure deposit lag time by comparing the dates of cash debit recording and deposit slip dates to dates credited by bank.	2.82
Add up the accounts receivable subsidiary.	2.79
Inquire about any known addictions (e.g., gambling, drugs, alcohol).	2.79
Match payroll with addresses, looking for multiple persons at the same address.	2.69
Examine insurance documents.	2.68
Match payroll to social security numbers.	2.58
Investigate customers set up by insiders.	2.57
Examine revenue agent reports, where applicable.	2.46
Count the petty cash.	2.36
Match payroll to life and medical insurance deductions.	2.29
Apply Benford's Law.	1.93
Count the petty cash a second time in the same day.	1.71
*On a 5-point scale where 1=never and 5=always	

<b>Table IV</b>	
<b>Most Important (i.e., Top Three) Procedures</b>	
	N
Search for management overriding of controls.	58
Examine cancelled checks/bank statements.	56
Examine documents, looking for erasures, alterations and other oddities.	35
Examine endorsements on canceled checks.	28
Apply ratio analysis, horizontal analysis, and/or vertical analysis.	27
Search for extravagant lifestyles.	26
Examine expense invoices.	26
Audit general journal entries.	25
Search for people exhibiting unusual behavior.	21
Examine credit card receipts.	21
Investigate suppliers (vendors) to find fictitious vendors.	17
Examine employee time cards (or time clock records).	15
Examine copies where originals should be filed and/or where there are telltale lines from a copier when a document has been pieced together.	15
Examine purchase documents, where applicable.	13
Examine payrolls records (e.g., W2s, W9s, 941s and 940s).	12
Review customer complaints.	11
Inquire about any known addictions (e.g., gambling, drugs, alcohol).	9
Measure deposit lag time by comparing the dates of cash debit recording and	9
Compare subsidiary ledgers to see if they agree with the general ledger.	9
Search for employees who do not take vacations.	8
Count the petty cash.	8
Examine brokerage account statements, where applicable.	7
Search for unusual turnover (in customers, management, and/or vendors).	6
Match payroll with addresses, looking for multiple persons at the same address.	6
Apply Benford's Law.	5
Examine shipping documents, where applicable.	5
Investigate customers set up by insiders.	5
Examine buy/sale agreements, where applicable.	4
Match payroll to social security numbers.	4
Add up the accounts receivable subsidiary.	4
Examine Form 1099s.	3
Match payroll to life and medical insurance deductions.	3
Examine revenue agent reports, where applicable.	2
Examine cash register tapes, where applicable.	2
Examine insurance documents.	1
Count the petty cash a second time in the same day.	1

Table V					
Other Fraud Investigation Procedures Suggested					
Open-ended answers:	Classification				
	Interviews/Inquiries	Surveillance	Internal Control	Social Media	For Law Enforcement Only
Actions/involvement inconsistent with job responsibilities					
Claim activity outside perceived norms					
Claim volume inconsistent with area					
Discuss fraud with employees- explain characteristics	x				
Ask employees how they would commit fraud in their area	x				
Ask employee if they are aware of any current/previous fraud .	x				
Ask if they suspicious of anyone or anything	x				
Fraud inquiries of management and some employees.	x				
Review unusual balance in G/L sub ledgers and payroll controls					
Inquiry to management and employees in regards to their knowledge/ suspicion of fraud	x				
Criminal background check on all suspects					
Review of security video if present					
Interview witnesses	x				
Subpoena and review records and documents					x
Polygraph suspects/ interrogate suspects					x
Double checking calculations and reviewing system trails for altered data					
I assign all the travel cases to detectives and I review all the work that they do.					
Search social media, facebook, linkedin, twitter				x	
Search for conflicts of interest; related parties.			x		
Conducting an internal control and fraud risk conversation with client management					
Ask about knowledge of prior or current fraud risks and fraud occurrences.	x				
Statement analysis					
Behavioral interviews	x				
Video review					
Interview and interrogation	x				
Interviews	x				
Proof of cash.					
Inquiries	x				
Check for errors in paying duplicate invoices and/or a number of unapplied credits					
Consideration of internal controls and effectiveness is always a start			x		
Talk to each person involved in financial activity and thoroughly understand their role	x				
Compare financial statement to tax returns					
Interview key employees.	x				
Net worth					
BK department analysis					
Credit card expenditures for patterns.					
Verify and thoroughly exam funds being transferred from the same client					
Interviews	x				
Review social media of key players				x	
Check blank check supplies for missing numbers.					
I always talk to employees about their job and policies and procedures.	x				
If possible, interviews with employees and management team.	x				
Document searches for specific type of documents or specific words.					
Review records of Policy Exceptions;Activity that results in Exceptions to the Ethics Policy					
Access to data is limited so I focus on employee time, cash deposits & vendor submission					
Surveillance		x			
General ledger reconciliations and aging					
Talk to employees, individual who made complaint, agency who wrote referral report	x				
Looking at billing as a whole and see if it is reasonable or not.					
If the investigation involves an employee, we always run an investigation packet					
Interviewing	x				
Review customer feedback					
Surveillance		x			
Talking to employees	x				
n	20	2	2	2	2

## Appendix A

### Survey Questionnaire – page 1

#### Questionnaire

#### Survey A

You are invited to participate in our study that attempts to investigate fraud detection procedures performed by fraud investigators. It will take approximately 10 minutes to complete this questionnaire.

Your participation in this study is ANONYMOUS and completely voluntary. There are no foreseeable risks associated with this project. The inducement is a chance for a \$25 gift card. In order to keep the surveys anonymous, each respondent will be asked to submit a business card in order to have a chance at a raffle for a gift card. However, if you feel uncomfortable answering any questions, you can withdraw from the survey at any point.

Your survey responses will be strictly confidential and data from this research will be reported only in the aggregate. Questions or concerns about this study, including your role as a participant, may be directed to Dr. Lynn Clements by email at [lclements@flsouthern.edu](mailto:lclements@flsouthern.edu); Dr. Mike Knudstrup by email at [mknudstrup@flouthern.edu](mailto:mknudstrup@flouthern.edu); Mick Lynch, Chair of the Florida Southern College Institutional Review Board at 863-680-6205 or [jlynch@flsouthern.edu](mailto:jlynch@flsouthern.edu); or the Vice President for Academic Affairs and Provost of Florida Southern College at 863-680-4124.

We appreciate your time, effort and candid responses in evaluating these procedures and disclosing information about you. By completing this survey you have agreed to participate in this study. We will gladly share the results of this study with you upon request.

---

1. What is your occupation? (please circle one):

Accountant	Analyst	External Auditor
Internal Auditor	Management	Academic
Student	Other (please specify) _____	

2. If you indicated that you are a member of Management in Question 1, at which level? (please circle one)

Entry-level	Middle -level	Top-level	Other
-------------	---------------	-----------	-------

3. Professional licenses you hold (please circle all that apply):

CFE   CIA   CMA   CPA   Other (please specify) \_\_\_\_\_

4. Please circle your gender:                      Male                      Female

5. Please circle your age:

19-29      30-39      40-49      50-59      Over 60

6. How often do you perform techniques to search for fraud?

\_\_\_\_\_ Rarely      \_\_\_\_\_ Sometimes      \_\_\_\_\_ Often      \_\_\_\_\_ Most of my job

7. Approximately how many frauds have you investigated (whether or not you personally uncovered the fraud)?

\_\_\_\_\_ 0      \_\_\_\_\_ 1-10      \_\_\_\_\_ 11-40      \_\_\_\_\_ More than 40

8. Approximately how many frauds have you personally detected (i.e., uncovered)? \_\_\_\_\_



**Appendix A (continued)**

Survey Questionnaire – page 2

**Please think about the fraud investigation procedures you perform. For each of the following procedures, please indicate whether or not you normally perform the procedure when you are investigating suspected fraud, and, if so, how often by circling one answer using the following scale where 1 = never and 5 = always:**

	1=Never	2	3	4	5=Always
(a) Count the petty cash.	1	2	3	4	5
(b) Count the petty cash a second time in the same day.	1	2	3	4	5
(c) Investigate suppliers (vendors) to find fictitious vendors.	1	2	3	4	5
(d) Investigate customers set up by insiders.	1	2	3	4	5
(e) Examine endorsements on canceled checks.	1	2	3	4	5
(f) Add up the accounts receivable subsidiary.	1	2	3	4	5
(g) Compare subsidiary ledgers to see if they agree with the general ledger.	1	2	3	4	5
(h) Match payroll to life and medical insurance deductions.	1	2	3	4	5
(i) Match payroll to social security numbers.	1	2	3	4	5
(j) Match payroll with addresses, looking for multiple persons at the same address.	1	2	3	4	5
(k) Measure deposit lag time by comparing the dates of cash debit recording and deposit slip dates to dates credited by bank.	1	2	3	4	5
(l) Examine documents, looking for erasures, alterations and other oddities.	1	2	3	4	5
(m) Examine copies where originals should be filed and/or where there are telltale lines from a copier when a document has been pieced together.	1	2	3	4	5
(n) Audit general journal entries.	1	2	3	4	5
(o) Examine employee time cards (or time clock records).	1	2	3	4	5
(p) Examine cancelled checks/bank statements.	1	2	3	4	5
(q) Examine buy/sale agreements, where applicable.	1	2	3	4	5
(r) Examine shipping documents, where applicable.	1	2	3	4	5
(s) Examine expense invoices.	1	2	3	4	5
(t) Examine purchase documents, where applicable.	1	2	3	4	5
(u) Examine credit card receipts.	1	2	3	4	5
(v) Examine cash register tapes, where applicable.	1	2	3	4	5
(w) Examine revenue agent reports, where applicable.	1	2	3	4	5
(x) Examine payrolls records (e.g., W2s, W9s, 941s and 940s).	1	2	3	4	5
(y) Examine Form 1099s.	1	2	3	4	5
(z) Examine insurance documents.	1	2	3	4	5
(aa) Examine brokerage account statements, where applicable.	1	2	3	4	5
(bb) Apply Benford's Law.	1	2	3	4	5
(cc) Apply ratio analysis, horizontal analysis, and/or vertical analysis.	1	2	3	4	5
(dd) Search for extravagant lifestyles.	1	2	3	4	5
(ee) Search for people exhibiting unusual behavior.	1	2	3	4	5
(ff) Search for unusual turnover (in customers, management, and/or vendors).	1	2	3	4	5
(gg) Review customer complaints.	1	2	3	4	5
(hh) Search for employees who do not take vacations.	1	2	3	4	5
(ii) Inquire about any known addictions (e.g., gambling, drugs, alcohol).	1	2	3	4	5
(jj) Search for management overriding of controls.	1	2	3	4	5

**Which THREE of the investigation procedures described in (a) through (jj), above, are the most important to you?**

**Please circle up to three.**

(a) (b) (c) (d) (e) (f) (g) (h) (i) (j) (k) (l) (m) (n) (o) (p) (q) (r) (s) (t) (u) (v) (w) (x) (y) (z)

(aa) (bb) (cc) (dd) (ee) (ff) (gg) (hh) (ii) (jj)

**Appendix A (concluded)**

Survey Questionnaire – page 3

Are there any other fraud investigation procedures you ALWAYS apply? If so, please describe them:

---

---

---

**References**

- Associations of Certified Fraud Examiners (ACFE). 2014. *Report to the nations on occupational fraud and abuse: 2014 Global fraud study*.
- AICPA. 2012. *AU-C Section 240: Considering Fraud in Financial Statement Audits*.
- Albrecht, W. S., C. O. Albrecht, C. C. Albrecht, and M. F. Zimbelman. 2016. *Fraud Examination, 5e*. Boston, MA: Cengage Learning.
- Crumbley, D. L., L. E. Heitger, and G. S. Smith. 2015. *Forensic and Investigative Accounting, 7e*. Chicago, IL: CCH.