

Preventing fraud and corruption in government

Fraud Investigation

A knowledge-driven approach

By Gordon Williamson, Michael McFadden and Sally Cameron-Stephen

While most governments are wholeheartedly committed to fighting crime, including fraud and corruption, it is a necessarily expensive fight and funding for law enforcement must compete against a range of other demands. Among other things, governments expect that finite law enforcement resources be targeted to the highest-priority areas and that policing services be delivered in the most cost-effective manner. Governments rightly expect law enforcement agencies to pursue continuous improvement and innovation in operational activity, as well as in resource management and planning.

By any measure, over recent years the Australian Federal Police has enjoyed outstanding operational successes both domestically and internationally as well as the strong support of Government. Operationally, these successes are attributable to a highly professional and skilled workforce, the implementation of innovative investigative techniques including those based on technology and mobile strike teams, and increased cooperation and coordination of investigations with partner agencies, nationally and internationally. Equally, these successes reflect the robust, knowledge-driven performance planning and management framework, which the AFP has introduced.

The AFP's move to a proactive, knowledge-based organisation committed to maintaining a culture of continuous improvement, has been based on:

- a concern for the client and a greater readiness to understand and appreciate the client's perspective;
- a management environment where business planning is proactive and provides leadership for both law enforcement operations and policy directions; and

- a performance management and reporting system that emphasises real achievement and the AFP's place in national and international law enforcement efforts.

The Importance of Fraud Prevention

While policing is often seen in the context of criminal investigation leading to prosecution, it is always useful to reflect on the police role in crime prevention. The parameters that guide a policing organisation include recognition that:

- the basic mission for which the police exist is to prevent crime;
- the ability of the police to perform their duties is dependent upon securing the willing cooperation of the public; and
- the test of police efficiency is the absence of crime and disorder, not the visible evidence of police action in dealing with it.

These are not new concepts – the words being based on an 1829 statement by Sir Robert Peel, the founder of the modern police force.

The AFP, as the Commonwealth Government's police service, has a primary role in the protection of Commonwealth interests and in ensuring that its property and revenues are not diminished by serious

and complex fraud. Applying Peel's observations to the Commonwealth environment, one might observe that:

- a major output for the AFP includes preventing serious fraud;
- the ability of the AFP to combat serious fraud is dependent on securing the willing co-operation of major Commonwealth revenue and expenditure agencies, with which it shares investigative responsibilities; and
- the test of the AFP's efficiency in this regard ought to be a reduction in fraud or disorder.

In the context of seeking to reduce the impact of fraud on the Commonwealth, this article discusses recent reforms in the way in which the AFP manages its operational activity, the measured impacts of those changes on both the AFP and its clients, partners and stakeholders, and current directions in that ongoing reform. This article provides a case study of the AFP implementation and also reports on the results of some benchmarking and other analysis recently undertaken by the AFP with respect to its fraud-investigation activities.

It is important to note that this is a work in progress, that progress is reported in trend terms and not absolutes, and that comments and feedback from our clients, partners and stakeholders are not only welcomed but are actively sought.

Reforms

The specific reforms canvassed in the article are:

- changes in the AFP's client focus;
- the outcome-based business planning framework; and
- performance measurement.

Client Focus

In 1998, the AFP formally adopted a client-focus policy to ensure that the AFP remains relevant to its clients, partners and stakeholders through fostering relationships which are more sensitive to their needs. Client focus is directed to customers, their needs and how we may best improve our service to them. It is one which anticipates, identifies, responds to, and satisfies their needs and expectations.

As part of its client focus, the AFP adopted the level of client satisfaction as a key performance indicator for the organisation.

A major initiative of the client-focus policy was the creation of a Client Service Team (CST) in AFP Headquarters and the establishment of Client Liaison Officers in each of the AFP's business units.

CST has three roles:

- to contribute effectively to the Commonwealth's fraud-control strategies;
- to facilitate the reporting of matters to the AFP; and
- to monitor and enhance the AFP's relationships with its clients.

Enhancements to the prioritisation process

Because of the investigative focus given to the AFP by Government and the high level of demand for services in these areas, the AFP has implemented a Case Categorisation and Prioritisation Model (CCPM) which seeks to ensure that AFP resources are directed to the areas of highest need. The CCPM takes into consideration the type of criminal activity, the impact of the matter on Australian society, the dollar value where it is an economic crime, the type of response required, resources, cost and duration.

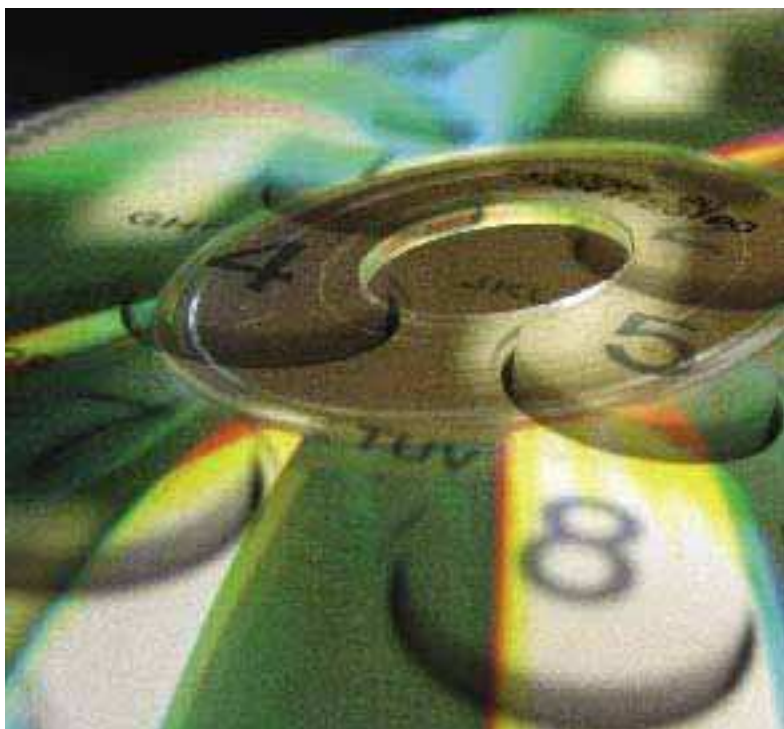
The AFP has gone to considerable lengths to ensure that the CCPM is applied appropriately and consistently throughout all business units. We have also disseminated it widely to our clients, resulting in an improved understanding of what constitutes serious or complex matters as defined by the draft Commonwealth fraud-control guidelines. Over the years, you will all have heard stories – or possibly even told them yourself – of the elusive and ever-moving bar applying to AFP referrals – of matters accepted in one business unit but similar matters rejected in another. It is extremely gratifying to know that these stories have all but died. We are currently reviewing the CCPM to add further explicit consideration of the value that our clients attach to particular matters, as well as the extent to which matters accord with the AFP's role in investigating serious or complex crime.

Outposting Strategy

The AFP also contributes to Commonwealth fraud-control strategies by outposting members to a range of Commonwealth agencies and law enforcement related bodies. In 2000-01, 88 members were outposted to 18 agencies. Despite a paucity of information on specific outcomes and outputs, there is very strong evidence that agencies in particular, and the Commonwealth in general, derive significant benefits from the outposting of AFP members.

Feedback gained from surveys and through evaluations and reviews of specific outpostings has been almost uniformly positive regarding the outcomes of outpostings and agencies' satisfaction with the outposting. Outposting of AFP officers results in a number of benefits to both the AFP and the agency, including:

- facilitating the referral of appropriate matters to the AFP for investigation;
- assisting agencies to investigate alleged breaches of legislation for which they are responsible;
- providing immediate access to skills and knowledge and faster responses between the agencies, resulting in agency cases being investigated in a more timely manner and offenders being dealt with more promptly in the courts;
- leveraging limited resources through more joint-agency investigations;



- improvements in the quality of briefs of evidence to the Director of Public Prosecutions (DPP);
- enhanced exchange of intelligence;
- facilitating the transfer of skills between AFP and agency personnel in fraud-related matters; and
- promoting better communication and understanding between agencies and the AFP.

While the AFP has sought to ensure that officers are placed in the Commonwealth interest, in the past year, the AFP has placed a number of members in agencies on a cost-recovery basis, to meet the specific requirements of these agencies.

Service Agreements

The negotiation of service agreements with key client agencies reflected a significant change for the AFP, as these agreements commit the AFP to providing specific services to agencies within specific timeframes and to agreed standards. Service agreements give agencies greater certainty that particular types of matters referred for investigation will be accepted. They also provide for greater involvement of clients in evaluation and prioritisation processes, including for example, the identification of exemplary matters or strategic strikes for investigation and identification of those referrals from their agency should be given the highest investigative priority. This involvement of the client agency in the case selection process is intended to enhance deterrence and hence lead to a decline in offences.

While the AFP is keen to put in place agreements with a wide range of agencies, it is very aware of the

resources required to negotiate, manage and maintain agreements which are meaningful and which ensure that commitments to particular levels of service are met and maintained. As a result, negotiations are staggered, to ensure that the AFP builds upon the experiences gained in the negotiation of the first few agreements. An obvious benefit arising from the negotiation process is the improved understanding of the unique needs, expectations and capabilities of the respective agencies. To date, the AFP has completed agreements with ITSA, DFAT and Centrelink and DIMIA and is well advanced in negotiations with two other agencies.

Business Planning

Identifying business goals and setting targets is a key element of a knowledge-driven approach. Policing has traditionally been seen as a predominantly reactive function in which police respond to crimes committed. In recent years, the AFP has paid considerable attention to the prevention of crime and one strategy the AFP has adopted is to target particular crime types by proactively assigning resources consistent with its overall business plans.

Government and Operational Priorities

The AFP is given general direction on priorities to be followed in the form of a direction issued by our Minister after receiving advice from the AFP's Commissioner. Recognising the Government's priorities and using the CCPM, the AFP determines its business through balancing the potentially competing demands of meeting the reasonable needs and expectations of its clients, partners and stakeholders with its own assessment of the criminal environment.

Crime Management Strategies

Crime management strategies are used to support the AFP's business-planning cycle and are a means of more closely integrating intelligence, operational activity and policy development activity under each main crime type. The AFP's crime-management strategies identify and prioritise high-impact crime problems confronting Australia. The AFP has seven crime-management strategies in the following areas:

- Illicit Drugs
- Economic Crime
- International
- Protection of Australian Systems and Institutions
- Security Threats
- People Smuggling
- Environmental Crime

Cocktail Targets

The AFP was concerned with a perception (rightly or wrongly held) that it was not delivering services to its full range of clients, across the wide variety of demands for investigative services, or in the most effective ways. In 1999, through activity survey, measurements of resource application against the ele-

ments of the (then) Outcome and Outputs structure, indicated specific areas where changes in service delivery were required.

Through a process of balancing the internal intelligence assessments and the external demands of clients, partners and stakeholders, each business unit produces a cocktail of targets with respect to the investigative services to be delivered. This cocktail reflects the relative percentage of investigative resources (hours of all operational personnel¹ as recorded through an online time attribution system) that should be applied to different incident or crime types. The cocktail is intended to ensure that the AFP focuses on the needs of all of our clients, partners and stakeholders. This information is used by operational business units as part of the decision-making process when determining whether matters ought to be investigated and the extent of resources to be made available to those matters.

For 2000-2001 (and again in 2001-2002), the AFP determined a cocktail of the investigative services it intended to deliver by type (essentially crime type), location and nature. Over 18 months, significant progress has been made towards the targeted changes (see Table 1).

This cocktail also drives human-resourcing decision making – both in numbers and skills and internal financial resourcing, ensuring that there is an integrated planning framework which links resources to outputs, as well as planning operational outcomes.

X-Office

In the current year, the AFP has adopted a consistent organisational structure across all operational business units. This is not intended to stifle innovation within business units and it will permit benchmarking across business units to identify worthy practices which ought to be more widely applied and hence lead to improvements in service delivery.

Performance Improvement Plans

In addition to cocktail targets for each main type of operational or support activity, a series of national performance improvement plans are developed which are translated into local action plans by local business units. These ultimately feed into individual performance-management plans for individual employees. Performance Improvement Plans address 11 specific areas of AFP activities and include initiatives to deal with diagnostic information derived from Client Satisfaction Surveys, such as

- strengthening and supporting the client liaison officer network to help clients and partners develop a better understanding of the AFP and realistic expectations of the services which could be delivered;
- improving the understanding that AFP members have about key client and partner agencies so as to enable them to provide higher quality services;

Cocktail of Targets

	6 months ending		Target
	January 2001	December 2001	
Drugs	59	41	32
Fraud	17	25	25
General	5	9	5

Table 1.

- improving the quality and timeliness of Quarterly Case Management Reports, including electronic delivery;
- expanding our use of joint operations with client and partner agencies in order to leverage the resources of each agency and to make better use of agency expertise.

Business Cases

During the current year, the AFP has introduced the use of business cases – a term we found often used but rarely well defined – to both assist in decisions on new proposals but equally importantly, to subject existing activities to systematic review and ensure that we have a consistent understanding of what the problem is we are trying to solve, what the options for dealing with the problem are, what are the true costs and benefits of each option (including doing nothing about the problem) as well as the identification of suitable performance measures for the selected option.

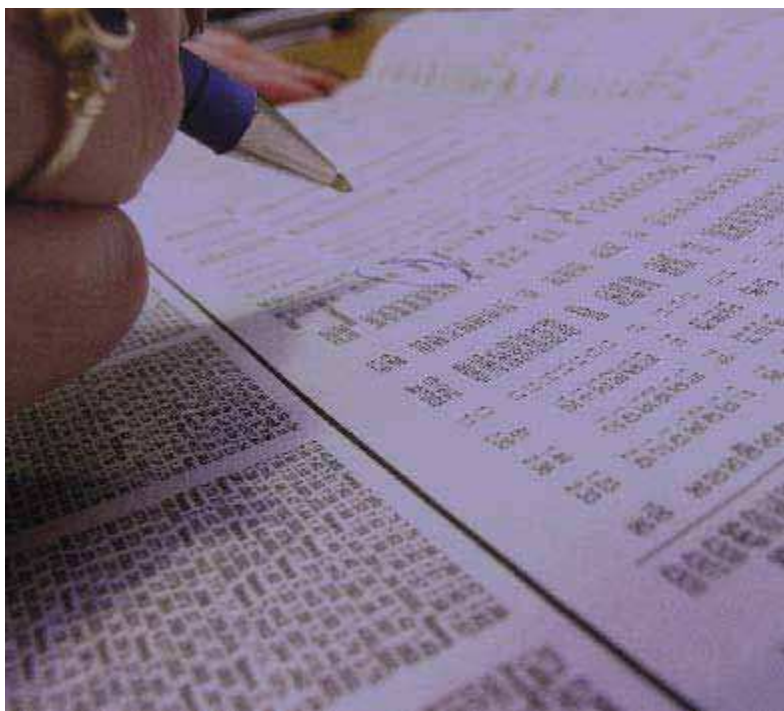
Business Activity Analysis

Each business unit is subject to cyclical review by the AFP's Commissioner and Deputy Commissioner. These reviews, known as Business Activity Analysis (or BAAs) take the form of a face-to-face meeting between the executive and the decision-making team within each business unit where issues such as performance against targets, operational outcomes and progress towards performance improvement are discussed.

These reviews are based on an objective analysis of corporate data pertaining to each business unit and enable a frank exchange of views. By considering a mix of quantitative and qualitative data, using case studies in the process, and avoiding the competition of a league table, they also serve as a vehicle for identifying both opportunities for improvement as well as worthy practices which ought to be more widely applied.

Performance

The whole framework is all about improvements in performance. While it is early days, already we



are seeing substantial benefit and improved service delivery with respect to serious fraud.

Client Satisfaction Survey

In late 1999, the AFP commissioned its first, independent, national client satisfaction survey in order to gauge attitudes and perspectives towards the services provided by the AFP. A market research company conducted the survey in-confidence, which allowed agencies to provide honest feedback without being identified. While the first survey revealed high overall levels of satisfaction with AFP performance (91 per cent), it also indicated areas where there was a significant gap between client expectation and service delivery.

Through this survey and other means such as its annual cycle of high-level stakeholder consultations, the AFP identified a range of opportunities to improve service delivery to client agencies and incorporated these into Outcome Business Planning for 2000-2001.

Cycle of Continuous Improvement

According to the Department of Finance and Administration, the performance management cycle has six stages:

- identify the critical areas of performance;
- establish benchmarks for achieving outcomes;
- develop information systems to generate indicator data;
- report on results and identify areas for improvement;
- make appropriate changes to operations; and
- revise the relevant benchmarks as a result.

Traditionally, the AFP has employed activity-based reporting to describe its law enforcement function. This reporting was characterised by excellence in the extent and depth of information provided. In so doing, the AFP was reflecting current practice among other Australian and many international law enforcement agencies.

The AFP has moved from activity reporting of its function to performance-based measures that will contribute to the effective and efficient performance of the organisation as a whole. It is intended that these new measures will serve to benchmark AFP performance and form a significant part of organisational initiatives to maintain a culture of continuous improvement in the AFP.

To date, the AFP has developed a number of measures of its investigative services. These performance measures were developed to reflect the various stages of a typical case, including case referral, case selection, investigation, and outcome. By using separate measures, the AFP can assess its success in each stage of the process and target remedial action appropriately. The result will be an improved investigative process allowing the AFP to enhance further its ability to detect and deter criminal activity impacting on the interests of the Commonwealth.

In summary, the indicators show:

Case referrals – do we have an appropriate relationship with our clients and partners for external referrals, are our criminal intelligence processes working for internal referrals?

91 per cent of clients referring work to the AFP are satisfied with the AFP's acceptance of work referred.

Nearly 20 per cent of the cases commenced solely from intelligence are brought to legal process.

Case selection – are we focusing our resources on the most appropriate work?

Low-impact cases comprised 53 per cent of all open cases in 2000-01 and used 8 per cent of AFP resources. By contrast, very-high-impact cases comprised 7 per cent of open cases and employed 39 per cent of resources.

The number of new very-high-impact cases increased by 14 per cent in 2000-01.

Investigation – are we producing results on the matters we undertake?

Apprehensions increased by 13 per cent from 1712 in 1999 to 1929 in 2000-01.

Cases brought to the legal process increased from 42 per cent of cases finalised in 1999-00 to 52 per cent in 2000-01.

In the 12 months ending December 2001, 74 per cent of fraud cases resulted in legal process, up from 58 per cent the year before.

Outcome – what are we achieving from our investigations?

Ninety-two per cent of clients believe that the AFP has achieved the clients' objectives.

The AFP has continued to enhance its activities in fraud, money laundering and counterfeit-currency investigations. From 1999-2000 to 2000-01, the number of cases reaching legal process increased from 290 to 321 with the median value of these cases increasing from \$24,550 to \$29,876.

Second Client Satisfaction Survey

The second annual survey was recently completed and results conclude that:

- 97 per cent of clients are now satisfied (up from 91 per cent);
- 20 per cent are dissatisfied with a specific element (down from 25 per cent); and
- 78 per cent believe the AFP is successfully addressing criminal activity targeting their programs (up from 70 per cent).

AFP efforts to address the needs of its client in Performance Improvement Plans are reflected in the responses to the survey. The principal reasons to which clients attributed this improvement were the:

- proactive approach of the AFP Client Service Team and Client Liaison Officers over the last 12-18 months;
- implementation of joint investigation teams in association with clients; and
- introduction of service agreements which clearly define AFP responsibilities and responsibilities of AFP clients.

We have also used the survey process to provide clients with feedback on how our services are changing to remedy identified deficiencies.

Going Broader – beyond the AFP

As part of its reform program and adoption of its knowledge-driven approach to policing, the AFP has attempted to measure its own performance on a number of dimensions – present performance against past performance, comparisons with other service providers both domestically and internationally, and economic evaluation of outcomes against inputs.

Economic Evaluation of Fraud Investigations

The identification of the economic benefits of AFP functions is part of this process. The results of a properly conducted economic evaluation allow the Government and the community to quantify, in economic terms, the returns they receive for funding the AFP. The approach also has potential for measuring the relative efficiency of the AFP over time. The AFP investigates approximately \$A300 million of new fraud each year and these investigations account for approximately 16 per cent of all AFP investigative resources.

The results of an economic evaluation of AFP fraud investigations suggest that the AFP is providing sound returns to the community and the Government as a result of its fraud investigations. The current

study employed two measures: Net Present Value (NPV) and Return on Investment (ROI).

NPV yields the discounted net value of the program and thus, shows the economic value of a program in absolute terms. The NPV is calculated by converting the programs costs and benefits to their present (year one) value taking into account the difference for each year by applying a discount (or interest) rate.

ROI is the ratio of total benefits from the program to the total investment. In contrast to NPV, an absolute measure, ROI shows the value of the program in relative terms.

It is estimated that over the financial years 1999-00 and 2000-01, the AFP invested \$63 million in fraud investigations. The results of these investigations returned \$321 million to the Government in terms of monies recovered and future losses avoided. Over the two years, fraud investigations resulted in an NPV of \$258 million and a ROI to the Government of \$5.10 for every dollar invested. It should be noted that the results of this study are a conservative estimate of the real value of AFP investigations to the Government and the Australian community. The study did not include estimates of the general deterrence effect of AFP investigations and these are likely to be considerable. Furthermore, the estimation of known benefits was conservative.

Benchmarking with the private sector

In addition to an economic approach to the assessment of AFP fraud investigations, the AFP has also sought to make comparisons with private sector providers of similar services and received the cooperation of a major service supplier. Information was collected using a questionnaire and follow-up telephone discussion. The methodology was designed to provide comparison of investigation methods used



and give a broad indication of the relative efficiency in terms of hours worked per case.

The results confirmed that the private sector service provider followed a similar investigation method to that pursued by the AFP with the exception that the private investigator does not become involved in referring matters to the DPP or in criminal prosecution proceedings.

In terms of relative efficiency, the results suggest the AFP has lower average hours for cases up to \$250,000 and higher hours for those above. Nevertheless, these differences may not be indicative of relative efficiency and are probably the results of other intrinsic attributes of the cases. For example, complex cases of very large value will tend to skew results. The AFP investigated 12 very-large-value cases, ranging from \$10-160 million during the period of the study. The private sector service provider had one investigation in excess of \$10 million.

Another factor that could influence average hours worked is the number of intractable cases. Within the AFP, median fraud values are typically much lower than mean value and this is indicative of a small number of labour-intensive cases pushing up mean values well in excess of the median. The private sector service provider, on the other hand, reported that mean and median values were typically closer together. Generally, given the cost of protracted investigation to the client, private investigators will tend not to be involved in such cases.

The number of simple cases will also influence the average hours worked. While the AFP handles very

complex cases, the AFP will also undertake a number of very simple fraud cases with few hours involved. This type of case is unlikely to be referred to a private investigator.

Regardless of these observations, the overall average number of hours worked is very nearly the same: 91 hours per case for the private sector service provider and 103 hours per case for the AFP. This difference is certainly well within the bounds of possible estimation error in the study. The AFP and the private provider do not undertake exactly the same sort of work under the same conditions. Taking into account the available evidence and different conditions under which investigations are carried out in the AFP and the private sector service provider, it would appear that the relative efficiency of the two organisations, in terms of hours worked per case, is not dissimilar.

Conclusion

If there is a simple message in this paper, it is that the performance improvements of the type the AFP has made come from an iterative approach of analysis, measurement and change involving both the organisation and its clients, partners and stakeholders. The AFP analysed its environment, measured performance as scientifically as possible, changed business practices, analysed and measured again to test what impact the changes had.

But importantly, given that the AFP is but one small cog in a much larger wheel, at the same time, we see improvements across a range of Commonwealth agencies with whom we interact – Sir Robert Peel’s absence of disorder, if you like. For instance, in late 1999, the AFP signed a service agreement with the Insolvency and Trustee Service Australia (ITSA) to improve the quality of AFP services which support ITSA’s work in regulating and enforcing the bankruptcy framework.

Not only has the ITSA-AFP relationship improved, in anticipation of the Commonwealth Fraud control guidelines, which should be released shortly, ITSA has also moved to streamline and improve its investigative capacity. It is also notable that ITSA’s investigative statistics (whether for matters investigated in its own right or by the AFP) have also shown a boost with 33 convictions in respect of 23 persons achieved in the past six months. This compares with 33 convictions against a total 20 persons in the whole of the financial year 2000-01.

The AFP’s own achievements to date have been significant. The AFP has improved in almost every facet of its performance and, importantly, both management and operational members are aware through performance reporting that this improvement has occurred. The AFP, to an ever-greater degree, is concentrating on the work it should be doing – serious and complex crime. The AFP is taking more of these cases to the courts and apprehensions are increasing.

¹ Excluding those attached to strike teams directed to particular Government programs.

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Additional material available on request:

The AFP’s Client Focus Policy – CCPM

“Getting Down to Business” – Corporate Directions

Annual Report – Previous papers and presentations