The Fraud Detective: Navigating the Maze of Deception in Healthcare Providers

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Agenda

- Understanding health care fraud & the common types of fraud schemes.
- Investigative tools & methods used to uncover heath care fraud.
- Role of Audits – How audits can help detect and prevent fraud.
- Internal controls & best practices.
- Financial, legal, and social consequences of fraud.
- Prevention strategies – effective measures to prevent fraud.

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Case Example #1

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Guess the Fraud – $1MM Misappropriated Over 7 Years

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Let's Talk About the "F" Word

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Definitions

- **Fraud** – The wrongful or criminal deception intended as to result in financial or personal gain. This includes false representation of fact, making false statements, or by concealment of information. This is proved in court.
- **Waste** – Thoughtless or carless expenditure, mismanagement, or abuse of resources to the detriment of the US Government. This also includes incurring unnecessary costs resulting from inefficient or ineffective practices, systems, or controls. This is subjective.
- **Abuse** – Excessive or improper use of a thing, or to use something in a manner contrary to the natural or legal rules for its use. This is subjective.

Definitions were provided by the Office of Inspector General.

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General Areas of Fraud

- Cash receipting (anywhere cash is collected).
- Fake procedures/billings.
- Financial statements (healthcare estimates, cutoff).
- Inventory theft.
- Payroll (overtime, ghost employees, expense reimbursements).
- Purchasing (vendor manipulation, bribes, kickbacks).
- You name it and it's possible!

Realities of Fraud:

- Fraud occurs with regularity
- Jail time possible
- Community status
- Court of public opinion
- Protect yourself
- Protect the organization

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Health Care Fraud

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Definitions

- **Health Care Fraud** – Is a deliberate deception or misrepresentation of services that results in an unauthorized reimbursement.
- Health care fraud can be committed by medical providers, patients, and others who intentionally deceive the health care system to receive illegal benefits or payments.
- **Health Care Abuse** – Refers to practices that are inconsistent with accepted medical, business, or fiscal practices.

Definitions were provided by the US Attorney's Office.

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Common Health Care Fraud Schemes

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General Fraud Scheme's

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Health care	117	38%	9%	8%	12%	47%	21%	1%	22%	16%	2%	9%

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Common Health Care Fraud Schemes

Internal

- Phantom billing:
  - Submitting claims for services that were never rendered to a patient.
- Upcoding:
  - Billing for a more expensive service than what was actually provided.
- Unbundling:
  - Submitting multiple bills for a single procedure.
- Misrepresenting diagnosis:
  - Misrepresenting a patient's diagnosis or symptoms to get a higher reimbursement rate.
- Double billing:
  - Submitting multiple claims for the same service.
- Kickback schemes among staff:
  - Employees receiving bribes or incentives to refer patients to specific providers.

Health care fraud is not a victimless crime.

It affects everyone, individuals and businesses alike, and causes tens of billions of dollars in losses each year.

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Common Health Care Fraud Schemes

External

- Billing for services not received:
  - Patients claiming they received services that were not provided
- Patient identity theft:
  - Using someone else's insurance information to access healthcare services.
- Impersonating a health care professional:
  - Providing or billing for health services without a license.
- False injury claims:
  - Exaggerating injuries to receive larger insurance settlements

It can raise health insurance premiums, expose you to unnecessary medical procedures, and increase taxes.

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Case Example #2

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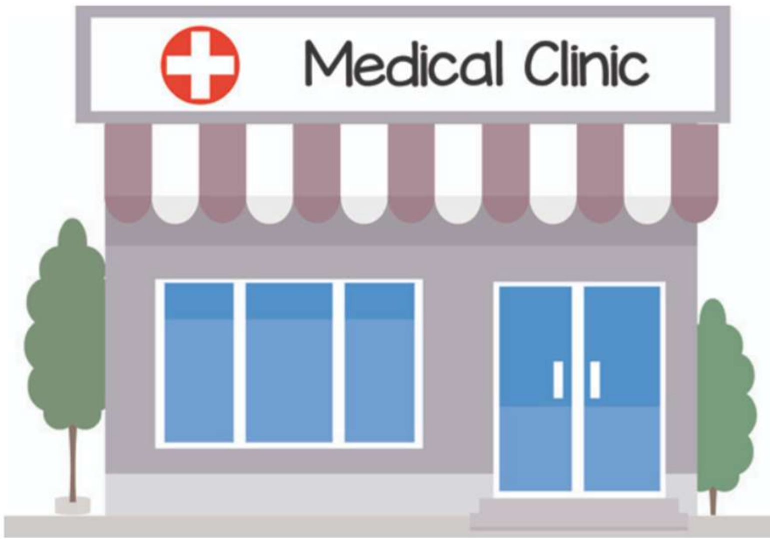
Multiple Schemes – Billings



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Financial Statement Fraud

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Financial Statement Fraud

SCHEMES					
Category	**Cases**	**25th percentile**	**Median (50th percentile)**	**75th percentile**	**Mean***
Asset misappropriation	1,309	$22,000	$120,000	$500,000	$1,116,000
Noncash	246	$10,000	$66,000	$250,000	$537,000
Billing	207	$25,000	$100,000	$448,000	$624,000
Cash on hand	143	$10,000	$50,000	$200,000	$357,000
Skimming	130	$10,000	$43,000	$200,000	$205,000
Expense reimbursements	127	$5,000	$50,000	$150,000	$251,000
Check and payment tampering	109	$26,000	$155,000	$510,000	$787,000
Cash larceny	95	$10,000	$50,000	$300,000	$561,000
Payroll	74	$10,000	$50,000	$250,000	$383,000
Register disbursements	21	$4,000	$50,000	$94,000	$95,000
Corruption	662	$50,000	$200,000	$1,000,000	$2,738,000
Financial statement fraud	61	$100,000	$766,000	$4,815,000	$6,045,000

*Mean amounts were calculated using loss data that was winsorized at 5% (i.e., assigned all cases in the top 2.5% and bottom 2.5% the same value as the 97.5th percentile and 2.5th percentile, respectively).

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Types of Financial Statement Frauds

- Timing differences.
- Fictitious billings for services not provided to raise revenues.
- Inflating asset values.
- Concealment of liabilities or obligations.
- Falsifying expenses.

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Red Flags

- Rising revenue without corresponding growth in cash flow.
- A spike in performance in the final reporting quarter of the year.
- Growth in revenue without commensurate growth in variable expenses — or vice versa.
- Consistent revenue growth while competitors are struggling.
- Aggressive revenue recognition practices, such as recognizing revenue in earlier periods than when the service was delivered.

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Role of Audits – How Audits Can Help Detect and Prevent Fraud

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Role of Audits

- Audits play a crucial role in…
  - Detecting and preventing fraud by systematically evaluating an organization's financial records, internal controls, and operations;
  - Identifying potential red flags and weaknesses that could be exploited for fraudulent activities; and
  - Allowing for corrective actions to be taken to mitigate risks and improve control systems.

Audit essentially act as a preventative measure by monitoring for unusual transactions and patterns that might indicate fraudulent behavior.

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Key Ways Audits Can Help Detect and Prevent Fraud

Risk Assessment

- Auditors perform a thorough risk assessment to identify areas within the organization most susceptible to fraud, considering factors like industry trends, internal controls, and employee access to sensitive information.

Control Walkthroughs & Testing

- By examining the effectiveness of internal controls, auditors can identify weaknesses that could allow fraudulent activities to occur undetected.

Data Analytics

- Utilizing data analytics tools, auditors can analyze large datasets to identify anomalies, unusual patterns, and outliers that could be indicative of fraud.

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Key Ways Audits Can Help Detect and Prevent Fraud

Investigative Procedures

- When suspicious activity is detected, auditors can conduct further investigations to gather evidence and determine the extent of potential fraud.

Fraud Awareness Training

- Auditors can contribute to a culture of ethical behavior by educating employees about fraud risks and reporting mechanisms.

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Different Types of Audits and Their Role in Fraud Detection

Internal Audit

- Regularly reviews an organization's internal controls and processes, providing early warning signs of potential fraud by identifying weaknesses and anomalies within the system.

External Audit

- Performed by an independent auditor to verify the accuracy of a company's financial statements, looking for potential misstatements that could be related to fraudulent activities.

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Important Points to Consider

- No guarantee of fraud prevention:
  - While audits are designed to detect fraud, they cannot guarantee that all fraudulent activities will be identified.
- Importance of communication:
  - Auditors should communicate their findings to management promptly to enable corrective actions to be taken.
- Continuous improvement:
  - Organizations should regularly review and update their internal controls based on audit findings and evolving fraud risks.

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Investigative Tools & Methods Used to Uncover Heath Care Fraud

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Investigative Tools and Methods

- To uncover fraud, investigators utilize a range of tools and methods including:
  - Data analysis;
  - Transaction monitoring;
  - Anomaly detection;
  - Digital forensics;
  - Document review;
  - Interviews;
  - Background checks;
  - Predictive analytics; and
  - Specialized fraud detection software.

Some, or all, of these tools and methods are use depending on the type of fraud suspected and the available evidence.

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Investigative Tools and Methods

- Document Review:
  - Analyzing documents: Examining invoices, receipts, contracts, and other paper trails for inconsistencies.
  - Keyword searches: Identifying key phrases or terms associated with fraudulent activity.
- Interviews:
  - Witness interviews: Gathering information from individuals with knowledge of potentially fraudulent activity.
  - Subject interviews: Questioning individuals suspected of fraud.
- Data Analysis:
  - Trend analysis: Identifying unusual patterns or deviations from expected trends in financial data.
  - Benford's Law: Analyzing the distribution of leading digits to detect potential manipulation.
  - Statistical analysis: Identifying outliers or anomalies in data compared to established norms.

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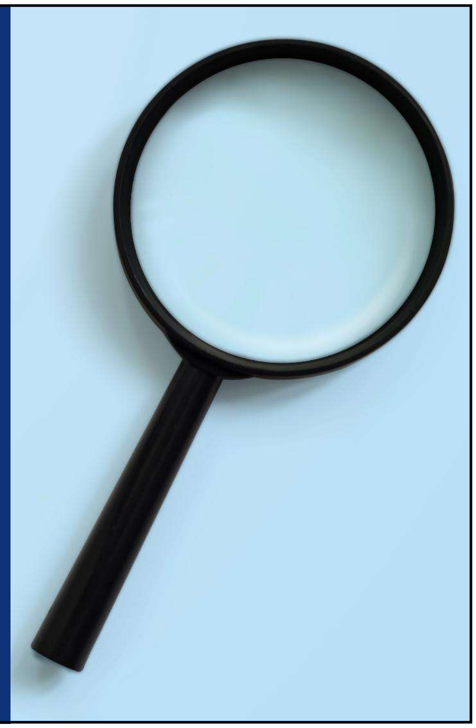
Investigative Tools and Methods

- Digital Forensics:
  - Computer forensics: Examining electronic devices to recover deleted files, emails, and other digital evidence.
  - Network analysis: Tracking digital footprints and communication patterns.
  - Data recovery: Recovering deleted or overwritten data.
- Background Checks:
  - Credit checks: Reviewing an individual's credit history for potential red flags.
  - Employment verification: Confirming past employment details.
- Predictive Analytics:
  - Fraud risk scoring: Using algorithms to identify individuals or transactions with a higher risk of fraud.



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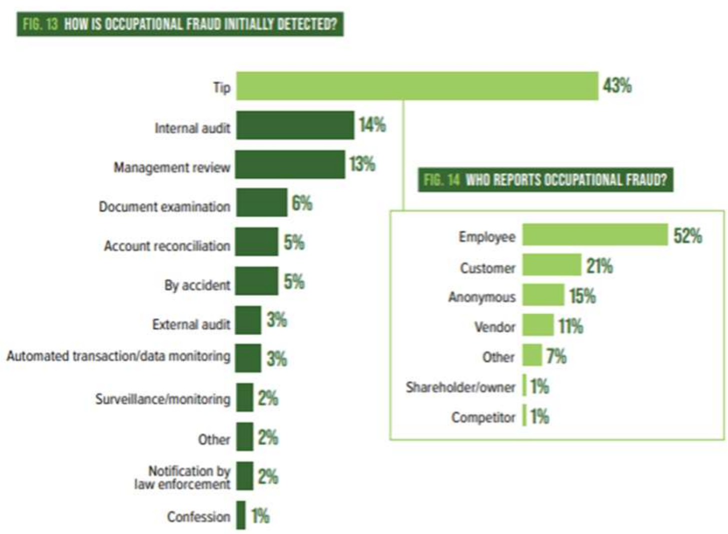
Fraud Detection Methods



32 Source: ACFE 2024 Report to the Nations

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Fraud Awareness Training

33 Source: ACFE 2024 Report to the Nations

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Case Example #3

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Altered Receipts

Figure 2 – Spilled Cologne Receipt

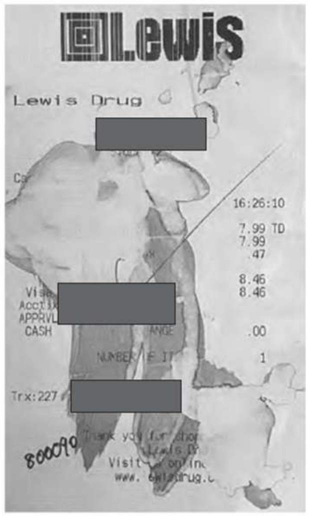

Figure 3 – Cut/Torn Receipt

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Internal Controls & Best Practices

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People

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Considerations

Capability

Rationalization

Pressure

~~Opportunity~~

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Internal Controls Defined

Internal Controls (a/k/a checks and balances) are designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- reliability of financial reporting,
- effectiveness and efficiency of operations, and
- compliance with applicable laws and regulations.
- Should also include "**Safeguarding Assets**."

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Internal Controls And Fraud Risk

Probability of fraudulent activity is typically based on the following factors:

- How easy it is to commit fraud.
- Organization's fraud history.
- Motivational factors leading to fraud.

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Internal Controls and Fraud Risk

Basic principle:

People rarely commit fraud if they think they will be caught.

Perception of detection:

Most effective deterrent to fraud.

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What is the #1 Reason for Fraud?

<u>POOR</u> or **<u>NON-EXISTENT</u>** Internal Controls

Other Reasons:

- Collusion
- Management override of internal controls
- Lack of management oversight
- Weak ethics policy or code of conduct

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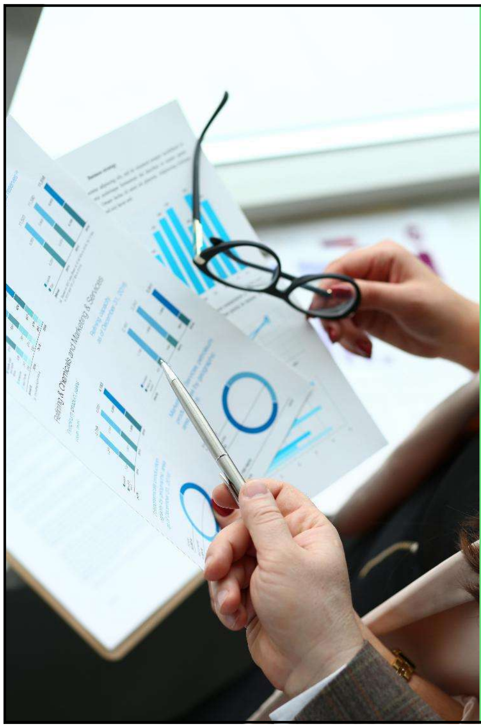

Types of Internal Controls

- Entity-Level
  - Includes tone setting, establishing a culture of ethics, oversight by board and senior management, governance policies, clear procedures and practices that affect the entire organization.
- Preventative
  - To keep errors or fraud from happening.
- Detective
  - To detect an error or fraud after it has occurred.
- Automated
  - Refers to triggers embedded within IT system.
- Manual
  - Requires persons to perform.

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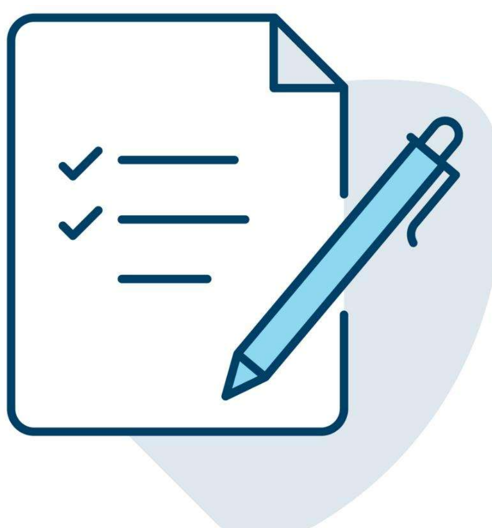
General

- Anonymous reporting system.
- Background checks.
- Segregation of Duties.
- Financial Reporting:
  - Audits.
  - Perception of detection.
  - Monthly balancing procedures – departmental budget to actual comparisons.
- Accounting system access:
  - Usernames / passwords.
  - Restriction to certain areas of the system.
- Banking:
  - Reconciliations – Reviewing actual cancelled checks and examining supporting documentation.
  - Using positive pay and dual controls for efts, i.e. wire transfers.



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Designing Effective Internal Controls

- Review current internal control structure and identify weak or nonexistent controls.
- Identify assets (and related transactions) susceptible to misappropriation.
- Review systems and procedures relating to vulnerable areas and identify issues.
- Develop controls to reduce the risk of misappropriation in vulnerable areas.
- Consider cost/benefit relationship of the controls developed.

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Fraud Risk Assessment Cycle

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Red Flags for the Lack of Internal Controls

- Individuals have 2 or more of the ARC duties.
- Several adjustments or mistakes are noted in the records (For example: duplicate payments issued, adjusting journal entries, refunds, etc.)
- Missing documentation.
- Employees are unable to explain processes and procedures for their department or position.
- Lack of internal controls could be a red flag for any type of fraud.

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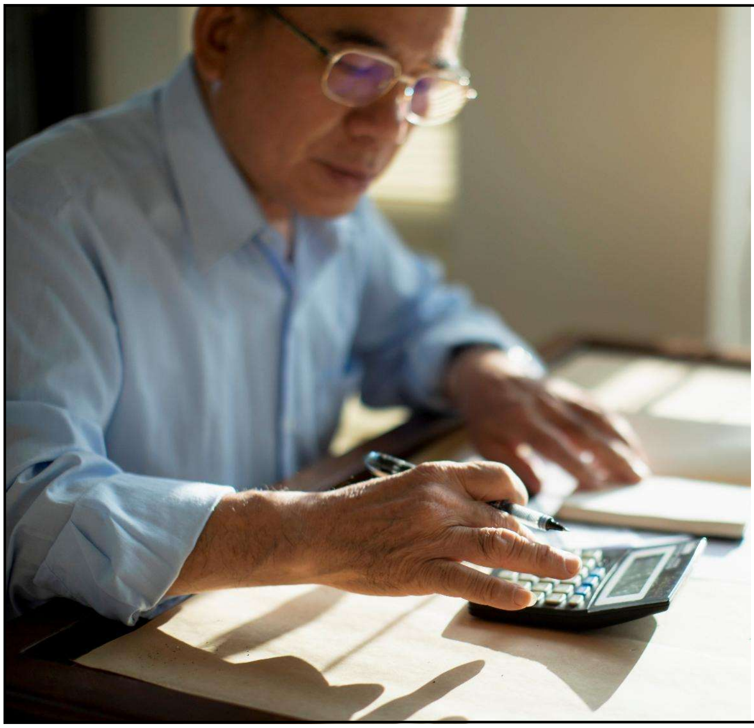

Red Flags for Employee Behavior

- Employee does NOT miss work or take any vacation/leave time.
- Employee unwilling to let others do their job duties or be involved.
- Employee appears to be living beyond their means, financial difficulties, and/or gambling/addiction issues.
- Employee is dissatisfied with organization and/or pay.

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Red Flags for Lack of Management Review

- There is no second or third signatures on the documentation, indicating approval. (Could be physical or electronic)
- Management is not present for meetings or trainings.
- Deadlines are missed by a specific department, or personnel and other departments are requesting the work be performed.
- Inability to explain analytical procedure results.
- Inconsistent explanations of the policies and procedures.
- Lack of Management Review can be a red flag for any type of fraud, including corruption.

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Red Flags for the Override of Existing Internal Controls

- The accounting system shows the controls have been overridden many times.
- Overhearing that it is being done by staff or management. Red flag words or phrases might be “override”, “surpass”, “just get it done”, “whatever it takes”, or “repeat what was done before”.
- No documentation to support the transaction.
- Large discrepancies are noted in the records that can’t be explained.

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Red Flags for the Poor Tone at the Top

- Board Members do not attend meetings or do not oversee management.
- Internal and External Findings are not changed or addressed year after year.
- Tips have been provided, and nothing has been done to verify or address them.
- No formal documentation that fraud will not be tolerated in the Board Policies or Employee Handbook.
- Poor tone at the top can be a red flag for corruption, specifically.

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Impact Analysis – Financial, Legal, And Social Consequences of Fraud

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Fraud can have Significant Consequences

Financial Impact	Social Impact	Legal Impact
• Direct monetary losses for victims; • Damage to a company's reputation and market value; and • Potential legal repercussions like fines and lawsuits.	• Damage trust in institutions; • Lead to increased anxiety and stress among victims; and • Contribute to a decline in community wellbeing.	• Can result in criminal charges against perpetrators; and • Civil lawsuits against companies involved in fraudulent activities.

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Financial Impacts

- Direct Losses:
  - Victims of fraud directly lose money, which can be devastating for individuals and can lead to financial hardship, bankruptcy, or loss of savings depending on the scale of the fraud.
- Business Losses:
  - Companies involved in fraudulent activities can face significant financial losses due to legal fees, settlements, lost revenue from customers who lose trust, and damage to their market reputation.
- Increased Insurance Costs:
  - Businesses may see higher insurance premiums due to increased fraud risk, further impacting their financial stability.

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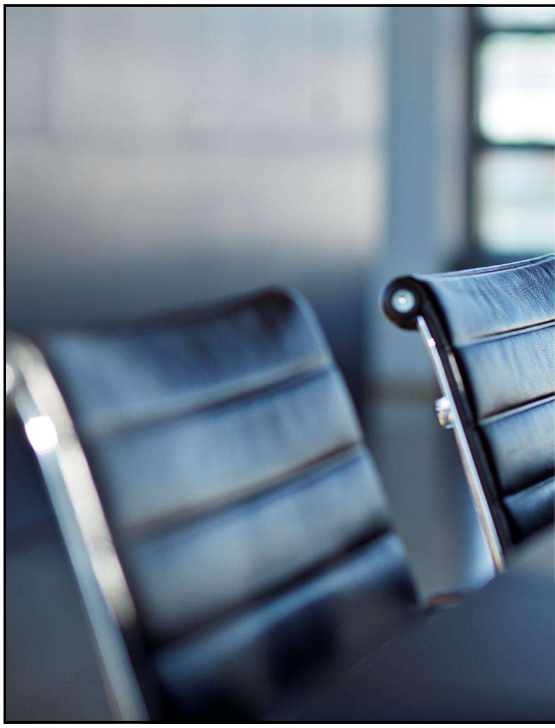

Social Impacts

- Loss of Trust:
  - Fraud can significantly erode public trust in institutions, businesses, and government agencies.
- Psychological Distress:
  - Victims of fraud can experience significant stress, anxiety, and feelings of betrayal, impacting their mental health and quality of life.
- Community Disruption:
  - When large-scale fraud occurs within a community, it can create a sense of distrust and instability, impacting social cohesion.

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Legal Impacts

- Criminal Charges:
  - Depending on the nature and severity of the fraud, perpetrators can face criminal charges, fines, and imprisonment.
- Civil Lawsuits:
  - Victims of fraud can sue companies or individuals involved in the fraudulent activity for damages, leading to further legal costs for the accused.
- Regulatory Compliance Issues:
  - Companies involved in fraudulent activities may face regulatory penalties and investigations, impacting their ability to operate in certain markets.

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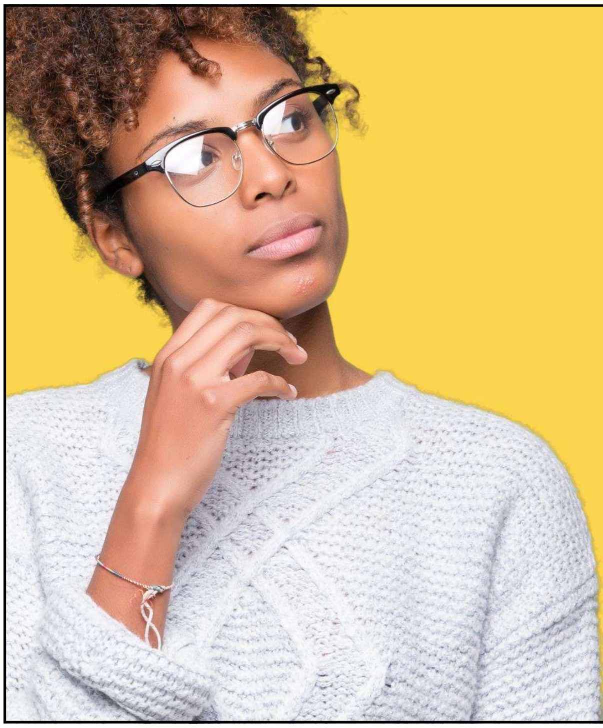

Key Points to Consider

- Vulnerable Populations:
  - Certain groups, like older adults, may be particularly susceptible to fraud due to factors like cognitive decline, making the social impact of fraud even more severe.
- Reputation Damage:
  - Even if the financial losses from fraud are relatively small, the reputational damage to a company can be significant, leading to long-term negative consequences.
- Prevention Measures:
  - Companies can mitigate fraud risks by implementing robust internal controls, conducting regular risk assessments, and educating employees about potential fraud schemes.

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Conclusion

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Takeaways

Most frauds are uncovered by accident
Don’t overlook the most obvious signs of fraud

Basic Principle
People rarely commit fraud if they think they will be caught

Perception of Detection
Most effective deterrent to fraud

Internal Controls			
Establish effective internal controls	Provide an anonymous hotline	Get employee dishonesty insurance	Consider using data analytics

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Questions?

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Thank you

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