

Framework for a Forensic Audit and Investigative Capability



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Overview

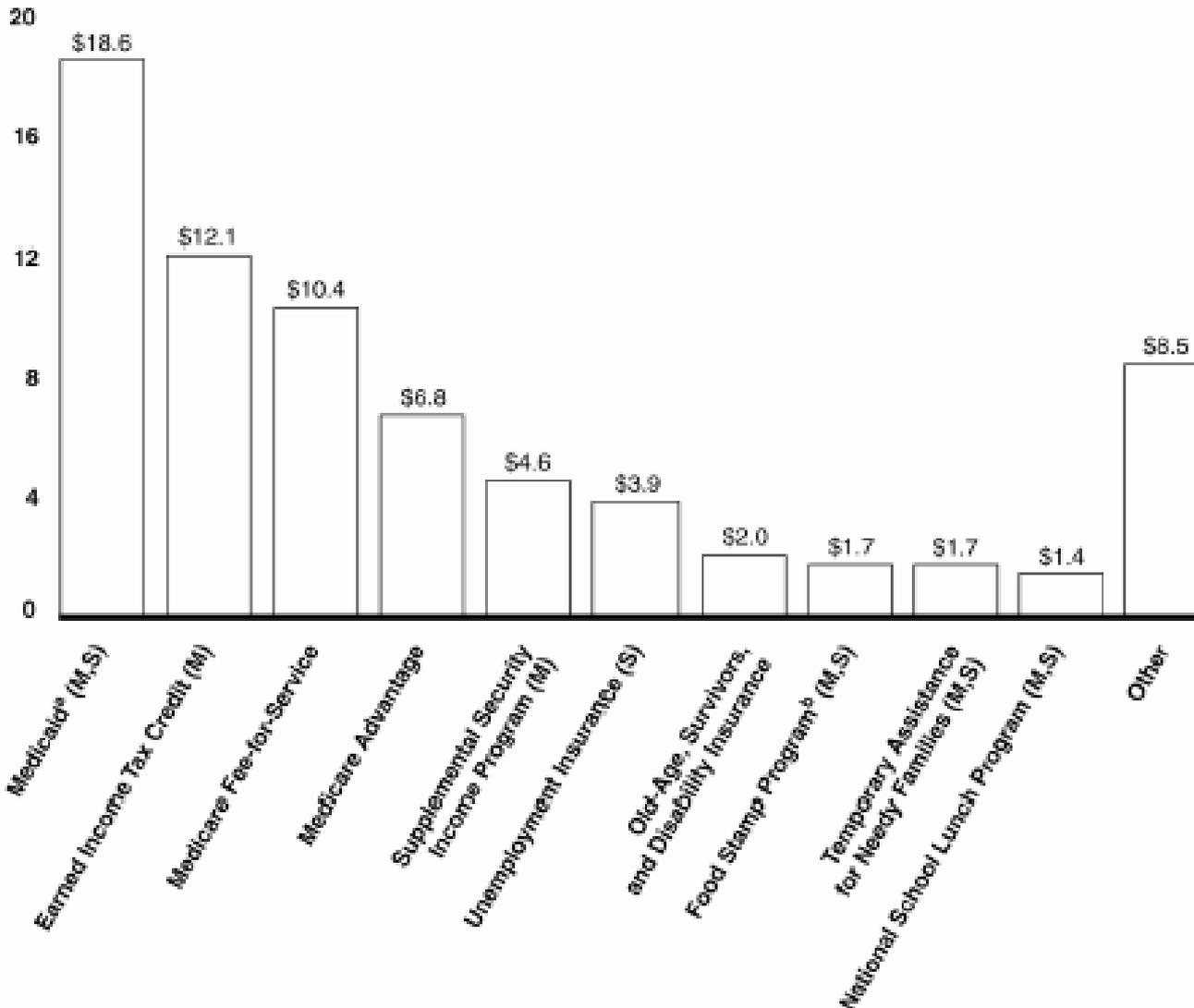
- Forensic Audit in the Federal Government
- Data Mining
- Techniques
- Equipment and Software
- Forensic Approach
- Case Analysis: TRICARE Fraud

Forensic Audit

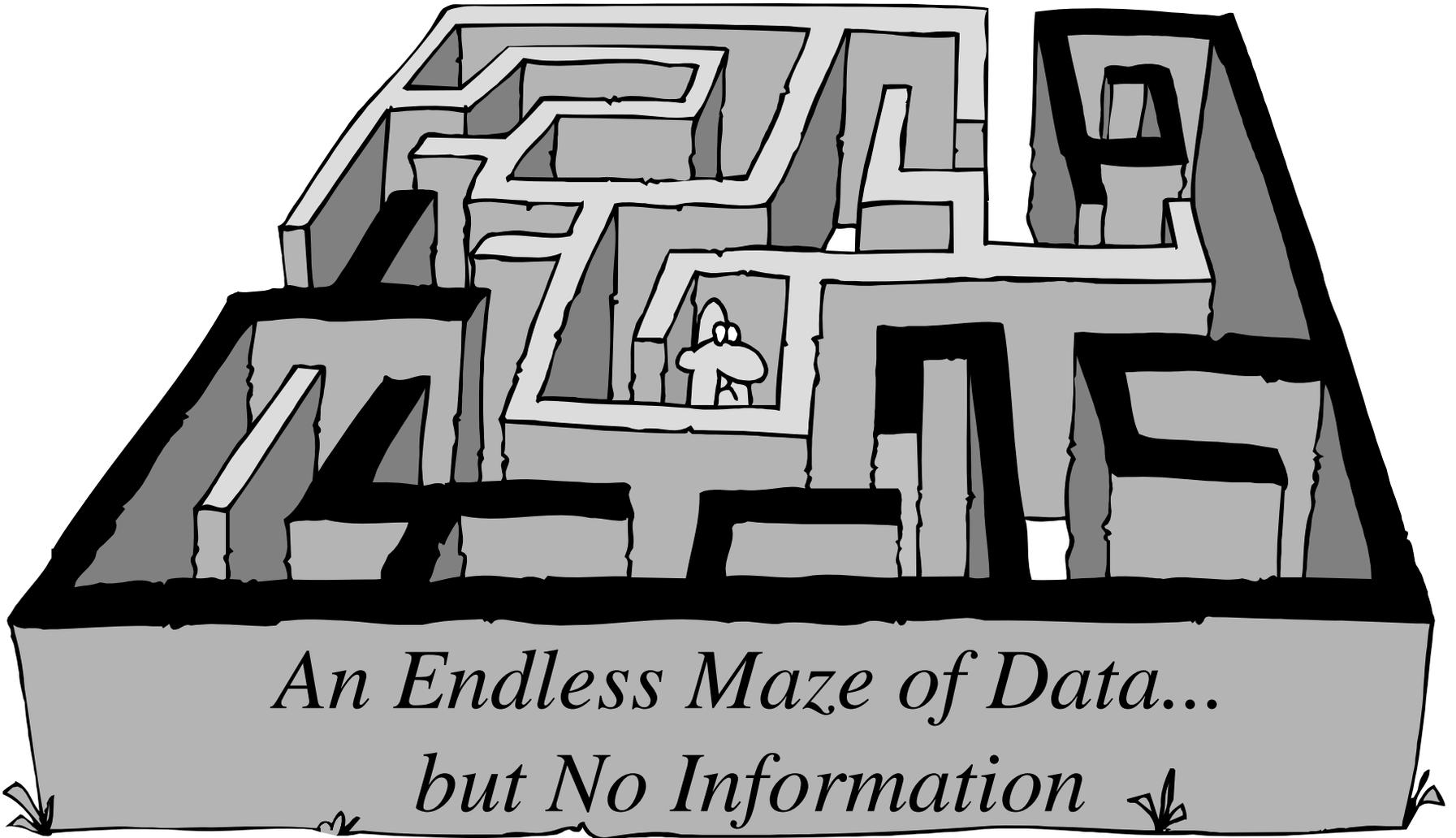
- Definition of Forensic Audit
 - Audit that specifically looks for financial misconduct, abusive or wasteful activity.
 - Close coordination with investigators
 - More than Computer Assisted Audit Techniques (CAATs)
- Forensic audit is growing in the Federal government
 - GAO's Forensic Audit and Special Investigations (FSI)
 - Operation Mongoose
 - DoDIG Data Mining
- Federal outlays are \$2 trillion annually (DoD \$575 billion)
 - OMB estimates improper payments for Federal government at \$72B (4%)
- GAGAS requires tests for fraud in audit work
- 100% review versus statistical sampling
 - There is a place for both
- Automated Oversight
 - Continuous monitoring
 - Quick response

FY2008 Improper Payment Estimates

Improper payment estimate



Data Versus Information

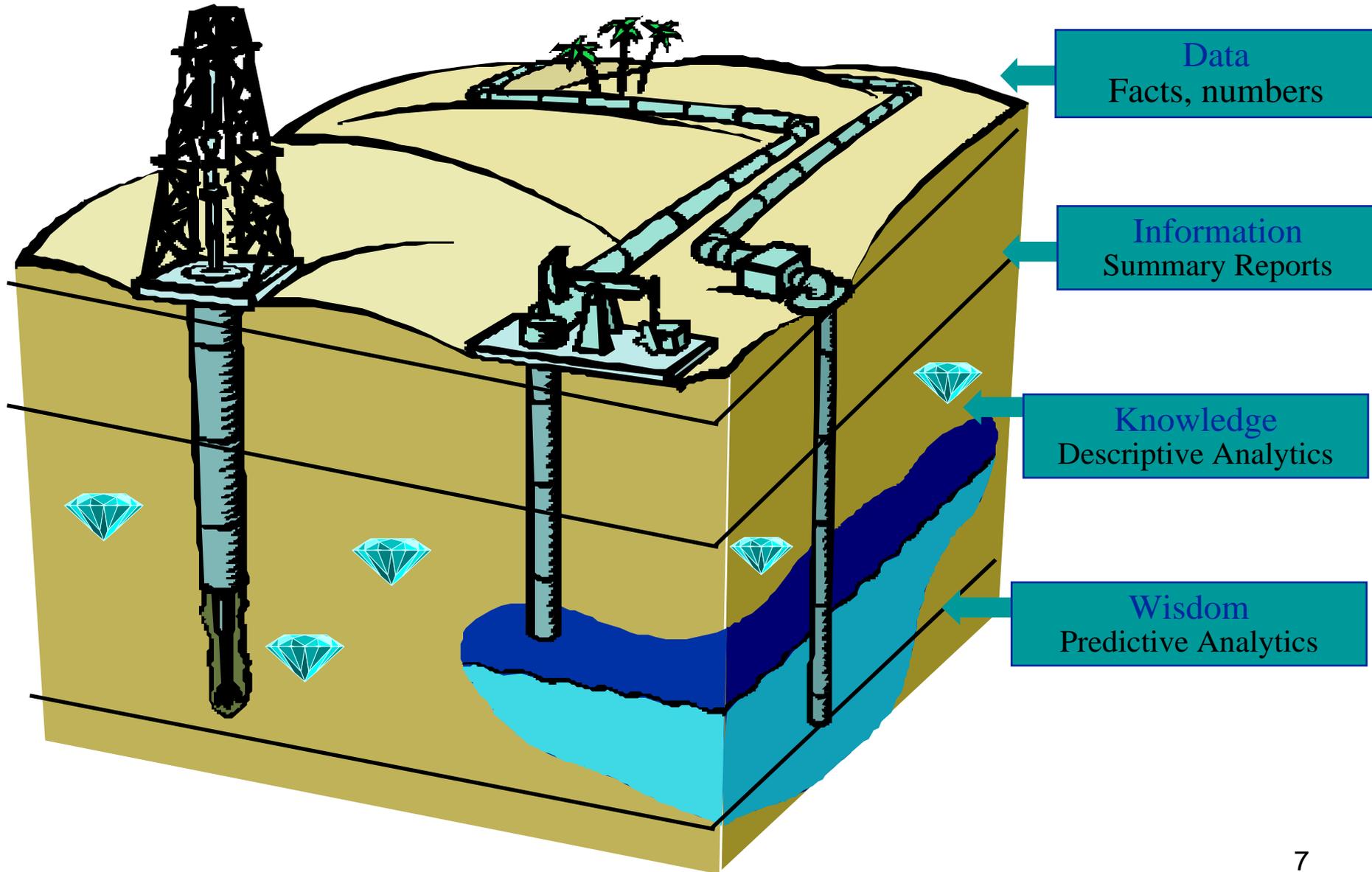


What is Data Mining?



- Refers to the use of machine learning and statistical analysis for the purpose of finding patterns in data sets.
 - If You Know Exactly What You Are Looking for, Use Structured Query Language (SQL).
 - If You Know Only Vaguely What You Are Looking for, Turn to Data Mining.
- Most often used (up until recently) in marketing and customer analysis

Different Levels of Knowledge



Data Analysis Software - Fosters Creativity

- Can perform the tests wanted, instead of being limited to what technical staff can, or will, provide
- Not limited to just predetermined data formats and/or relationships
- Can create relationships, check calculations and perform comparisons
- Can examine all records, not just a sample
- Useful for identifying misappropriation of assets and fraudulent financial reporting
- Allows limitless number of analytical relationships to be assessed
 - within large databases
 - comparing large databases
- Identifies anomalies



Common Data Analysis Tests and Techniques

- **Join**
- **Summarization**
- Corrupt data (conversion)
- Blank fields (noteworthy if field is mandatory)
- Invalid dates
- Bounds testing
- Completeness
- Uniqueness
- Invalid codes
- Unreliable computed fields
- Illogical field relationships
- Trend analysis
- Duplicates

Hardware and Software Applications

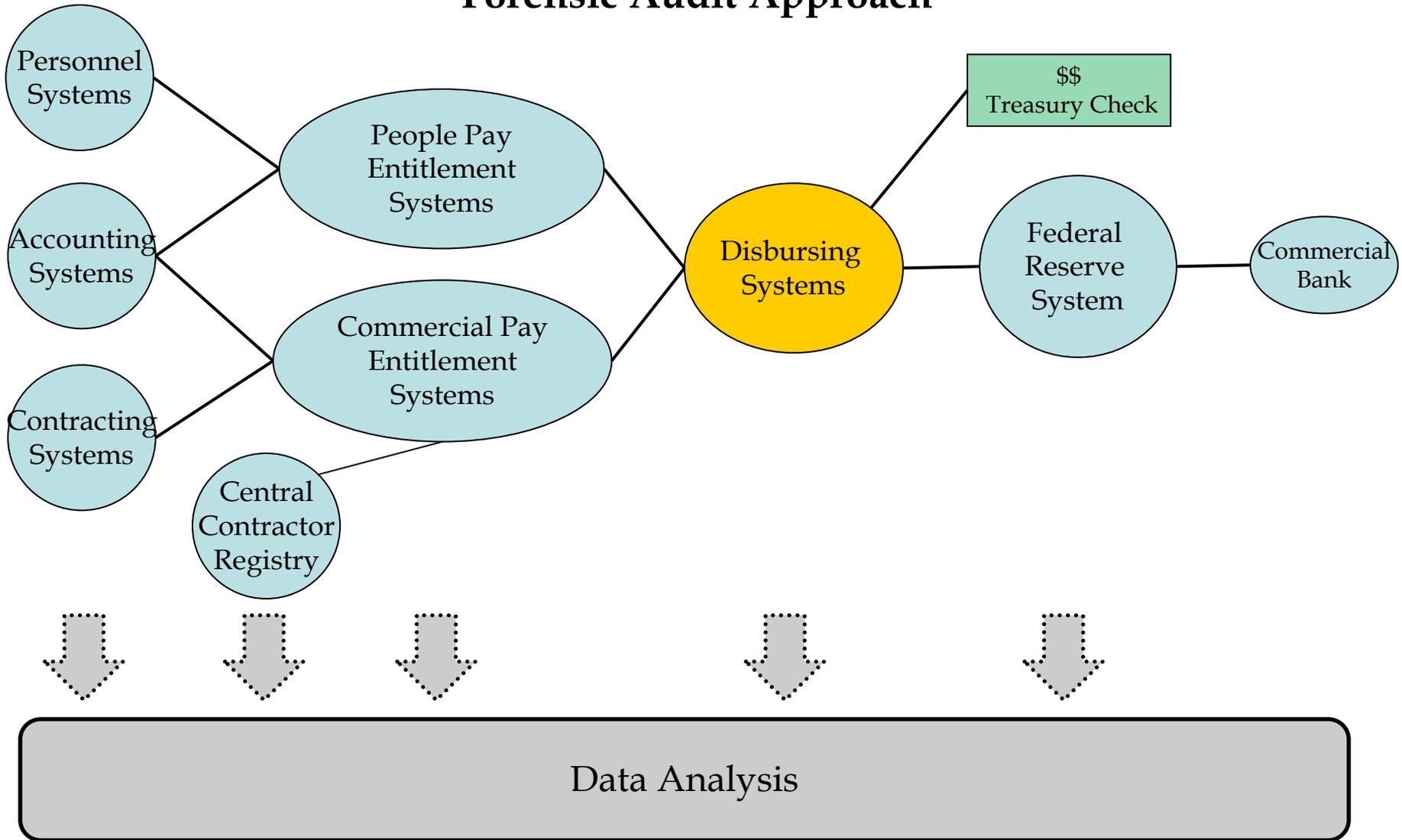
- Hardware
 - SQL servers
 - Mainframe (QMF)
 - Docking stations
 - Terminal server
- Software Applications
 - Data mining and predictive analytics
 - Data interrogation – e.g., ACL, IDEA, MS Access, Excel
 - Statistical analysis – e.g., SPSS and SAS
 - Link analysis – I2
 - Lexis-Nexis
 - Data conversion utilities (Monarch)
 - Internet, open-source research
 - Access to system query tools

Forensic Audit Approach

- Audit objectives and audit universe
- Work with investigations (DCIS and MCIOs)
- Structured brainstorming
 - Consider SME conference
 - Identify indicators of potential fraud and ways to find in data
 - Process to identify DoD financial risks
- Map out the end-to-end process
 - Identify systems
 - Identify key controls
- Identify and obtain transaction-level data
 - Record layout
 - 1000 record dump
 - ACL, IDEA, and Monarch can read virtually any data format
 - Flat files, Delimited files, Dbase files, Report files,
 - No file size limits
- Build targeted business rules and run against data
- Examine anomalies

DoD Payment Universe

Forensic Audit Approach



Growing a Forensic Audit Capability

- Developing an organization-wide capability
 - All audit staff should have basic skill with ACL, IDEA, Access
 - Forensic audit units perform more sophisticated analyses
- Phased development
 - Staffing – system savvy, critical thinking, analytical, business process knowledge
 - Hardware and software
 - Training....then immediate application to work
 - Standard audit programs should include data analysis steps
 - Include data analysis measures in staff performance plans
- Reporting Forensic Audit Results
 - Tables
 - Process flows....30,000 feet
 - Forensic techniques used in audit can help improve process...recommend them

TRICARE Overseas Program

- Scott Grady, Project Manager, DoDIG
- Daniel Boucek, Special Agent, DCIS

Framework for a Forensic Audit and Investigative Capability

Overview

- TRICARE Overseas Program
- Challenges of an international investigation
- Evolution of TRICARE Overseas Program fraud
- Health Visions Corporation (HVC)
- DOD IG Audit
- Outcome of the HVC criminal case
- A one-team approach

Framework for a Forensic Audit and Investigative Capability

TRICARE Overseas Program

- TRICARE provides military healthcare
- 479,000 beneficiaries overseas (\$200 million)
- 9,000 retirees and dependents in Philippines
- TRICARE pays 75% -- cost share 25%
- Out of pocket cap \$1,000 and \$3,000

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Challenges of an International Investigation

- Planning (Country clearance, VISA, etc.)
- Distance
- Culture/Environment
- Customs
- Weather (typhoons, raining season, heat)
- Holidays
- Safety/Security
- Authority



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Environment Ripe for Fraud

- The Philippine economy
- Clark and Subic Bay bases close
- Large military retiree community
- Large increase in TRICARE overseas fraud
- Lack of adequate TRICARE internal controls



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Evolution of Fraud

- 1996 - One doctor and 19 veterans conspire. Veterans receive 20-40 percent kickbacks
- 1997 - Expands to four doctors. Veterans receive 50-70 percent kickbacks
- 1997 - Health Visions Corporation established

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The Health Visions Corporation Scheme

- Entered into a kickback agreement
- Created a sham insurance program
- Inflated the bills of other providers
- Submitted fraudulent claims

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Total Claims Paid

Fiscal Year	Total	HVC	Others Providers
1998	\$2,873,326	\$241,841	\$2,631,485
1999	\$9,487,629	\$2,951,481	\$6,536,148
2000	\$22,785,878	\$10,037,653	\$12,748,225
2001	\$35,360,078	\$24,170,671	\$11,189,407
2002	\$60,250,258	\$52,018,319	\$8,231,939
2003	\$64,194,330	\$51,242,844	\$12,951,486
2004	\$38,100,020	\$26,653,463	\$11,446,557
2005	\$12,828,539	\$862,752	\$11,965,787
2006	\$23,865,383	\$127,636	\$23,737,747
2007	\$34,023,463	\$6,587	\$34,016,876

Framework for a Forensic Audit and Investigative Capability

HVC Provider Network



Framework for a Forensic Audit and Investigative Capability

Health Visions Corporation

Eventually building a
network of hospitals and
providers and billing
TRICARE millions



RIVERFRONT INTERNATIONAL HOSPITAL
ILO-ILO



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Audit Gets Involved

- Resource intensive - exceeded U.S. Attorney and DCIS resources
- Nine non-HVC owned hospitals using HVC billing services
- AUSA/DCIS selected and obtained claims
- Audit compared hospital bills to HVC claims

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Framework for a Forensic Audit and Investigative Capability

HVC Third Party Billing Activities

- HVC paid providers and submitted claims
- Payment and Explanation of Benefits (EOBs) to HVC, in provider's names
- Supplemental insurance plan used to entice beneficiaries

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Audit Criteria

- Limit claims review – resources and supportability
- Items over 1,000 Pesos
- Only matched items
- Excluded unbundling and services billed not rendered
- Reviewed 5,424 line items on 568 claims

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Examples From One Claim Reviewed

Supply/Service	Hospital (PHP)	Hospital (USD)	HVC Fee (USD)	Increase (USD)	Percent Increase
2D Echo-Doppler	5080	\$102	\$339	\$237	233%
Chemistry 12	4,960	\$99	\$331	\$232	233%
EMG + EEG	11,600	\$232	\$773	\$541	233%
Doctor's Fee	7,000	\$140	\$1,384	\$1,244	888%

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Results of Claims Review

- Inflated most line items by about 233 percent (confirming DCIS' sources information)
- Provider fees inflated more than 233 percent
- At least \$2 million in overcharges on 568 claims
- Estimated total loss of at least \$100 million

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Framework for a Forensic Audit and Investigative Capability

Anti-Kickback Statute

- Law prohibits remuneration - waiver of cost share
- Supplemental plan required use of its providers
- No limits on what plan would pay
- Annual enrollment fee (\$100) often waived
- HHS Fraud Alert (5/91) – low cost supplemental plans

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Estimated HVC Insurance Losses

FY	Income Potential	Expenses	Potential Loss
2000	\$0.9	\$2.5	\$1.6
2001	\$0.9	\$3.2	\$2.3
2002	\$0.9	\$4.9	\$4.0
2003	\$0.9	\$5.8	\$4.9
Total	\$3.6 mil	\$16.4mil	\$12.8 mil

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Audit Report Recommended

(report no. D-2006-051, Feb. 10, 2006)

- Sending payment and EOBs to providers
- Requiring provider statements
- Establishing procedures to detect unlawful supplemental plans
- Exercising administrative sanctioning authority

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Other Audit Efforts

- Follow-on TRICARE overseas audit
(report no. D-2008-045, Feb 7, 2008)
 - Price caps and accuracy of payments
 - Savings of \$120 million over 6 years
- Third party billing controls audit
(report No.D-2009-037, Dec 31, 2008)
- Continue to work with AUSA and DCIS

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Data Mining to Detect Fraud

- Use live or extracts of data bases
- Use programs such as Access & ACL
- Participate in inter-agency work groups
- Know data sets & fraud schemes
- Use Programs to identify aberrant patterns
 - Spikes in billings
 - Multiple billing addresses
 - Duplicate billings
 - Benford's Law
 - Top billers & users/customers
 - Unbelievable quantities

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- 75-Count Indictment
- Lutz Pleads Guilty – cooperates with the government, five years imprisonment
- Corporation Plead Guilty --- permanent exclusion, all officers, directors, employees
- Liquidate all of its assets, pay \$99,680,302 in restitution, a \$500,000 fine, and forfeit \$910,910.60

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Is TOP Fraud Still a Problem in the Philippines?

- Fraud at all levels of the government and private sector
- “Weather-Weather” – The expectation to take advantage of a situation to improve your financial situation
- Veterans and their dependents still need medical services

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U.S. Attorney's Office, DCIS and Audit A One-Team Approach

- Partnership approach successful
- Global War on Terror - important we work together
- Criminal prosecution not only solution
 - Administrative action
 - Internal controls
- Leveraging assets

