Proactive Approaches to Fraud Prevention & Detection

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Topics for Discussion

• The Traditional Approach to Fraud Investigation

• Case Study – Rehab Racket

• New Approaches for Preventing & Detecting Fraud
Fraud Investigation

1) Allegations of ongoing/prior misconduct

2) Investigation/Audit to gather evidence: are the allegations true? Did the misconduct actually occur? Can we prove it?

3) Report of findings and recommendations to appointing authority, prosecutors, etc. for action

4) Follow-up – were corrective actions taken?
Drawbacks

We are only catching fraud after it happens – and that’s expensive

– Per the ACFE*, the median duration — the amount of time from when the fraud commenced until it was detected — for the fraud cases reported to them was 18 months

– The median fraud loss was $145,000, and 22% of cases involved losses of at least $1 million.

Drawbacks - cont.

- Some operations/areas may be more susceptible to fraud, and more difficult to safeguard with traditional detective and preventive controls.

- Areas with a reliance on the integrity or diligence of a single employee, or where decision making resides with third-parties, have been particularly problematic.
Risk Areas

Over-the-Counter and in-person field transactions
- Welfare and benefit applications and determinations
- Plan checks and reviews
- Restaurant Inspection/Grading
- Code/Regulatory Enforcement
Risk Areas – cont.

Social Services Contractors
- Substance Abuse Prevention & Control Counseling
- Job Training and Placement (WIA)
- Refugee Assistance, Training & Education
- Third-party eligibility determinations
Risk Areas – cont.

Vulnerable Service Populations/Groups
- Juveniles/Dependents
- The Elderly
- Cultural or language barriers
- Individuals with mental or cognitive disabilities/diseases
Journalists conducted basic field observations and public records research, and identified a large-scale, distributed, and systemic fraud that went undetected by County and State agencies for years, resulting in millions in losses. 

http://cironline.org/rehabracket
The Proactive Investigation

Surveillance of clinics to count clients → reconciled to monthly billings to the County for clients served

39 observed vs. 179 billed

Brief client interviews identified individuals (group home residents who are dependents of the County) who said they did not need treatment, but were paid $5 to attend sessions or bused there by their caretakers

The investigation raises questions about the adequacy of government oversight of California’s Drug Medi-Cal program, built on an honor system in which honor often is lacking. Oversight is marred by infrequent and cursory inspections and by a failure to act...

How Did We Miss This?

– Deliverables/payables were inherently susceptible to fraud and manipulation – and that may not be correctible

– Controls in place gave monitors a false sense of the integrity of these programs

– Fundamental contractor AND STATE representations were not DIRECTLY verified

– Monitors were not asking the right questions, and may not have been empowered to
Fallout

75 CLINICS & 102 SATELLITES SUSPENDED BY Department of Health Care Services

$45 MILLION in annual funding cut off for suspended clinics

18 REFORM PROPOSALS FROM L.A. COUNTY AUDIT
- More criminal background checks
- $4.7 million owed by clinics referred to tax collector

L.A. COUNTY DEPARTMENT OF PUBLIC HEALTH ORDERS REVIEW
- New system to grade clinics
- Web platform for state and county to share audits
Fallout – cont.

**69 CRIMINAL PROBES OPENED**
by California Department of Justice

**MEDI-CAL CHIEF PROMISES LONG-TERM REFORMS**
- More intensive clinic reviews
- Communication gaps being closed

**STATE LEGISLATORS DEMAND ANSWERS IN CAPITOL HEARING**
- Top regulator apologizes for “systematic” failures
- Lawmakers want follow-up hearing if progress stalls

**STATE AUDIT ORDERED BY LAWMAKERS**
- Examine extent of fraud and lack of action
- Expected in June 2014

**L.A. COUNTY PUSHES STATE FOR ADDITIONAL REFORMS**
- Background checks of key clinic personnel
- Recertification of clinics every two years
New Approaches

Identify target areas – and get buy-in

- Do your operations have risk factors that make this a sensible proposal?
- It might pay to advertise what you are doing
- You’ll need support AND CONSENT of executive management and often the supervisor of the operation you want to test
New Approaches

Consider the integrity and compliance of your people

- BE the customer
- Create opportunity – see what happens
- Talk to real clients – not an audit verification (customer satisfaction survey?)
- Walk the parking lot, scrutinize address changes, read form 700’s
New Approaches

Consider the integrity of your systems

- Try to obtain and use access to systems you should not otherwise be able to get or have – test the new-user sign-up and change management processes

- Will users compromise system security to authority figures, or people they know?
New Approaches
Consider the integrity and compliance of your processes

- Insert bogus documents into your process stream at key points to determine if staff responsible for scrutinizing them are doing their jobs, and if controls exist/work

- Can you drop an extra invoice or application into the processor’s box unnoticed? Was it processed?
New Approaches

Consider the integrity and compliance of vendor/service provider payments

- Have you verified vendors actually exist and are doing work? Could you walk-in and check on them?

- Be a customer – try the services out and see if they are consistent with what you are being billed for
New Approaches

Mine your data (this isn’t really new)

- HR/payroll data can identify family relationships, and more.
- Add your vendor data to the analysis and you might find some troubling connections
- Keyword searches on email archives/servers
- Data normalization and de-duplication
PROCEED WITH CAUTION

- Ask your counsel
- Give the head of the unit being tested a role in the process, and present any findings (good or bad) in the light that they were developed through cooperation between audit and management
- Understand the line between integrity testing and entrapment – and don’t cross it
PROCEED WITH CAUTION - cont.

- Consider the impact if violations/findings are noted

- Make sure people understand how these initiatives are consistent with the culture and values of your organization – and give them a reason to get behind it
Conclusion

This works – but it has to be done right
Get buy-in/approval
Let people know what you are doing (in a general sense), to enhance deterrent value
Publicize and acknowledge successes
Look for opportunities to leverage technology
QUESTIONS
Contact

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