

Identifying Fraud with CAATs

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Today's Agenda

- Novation Background
- Fraud Defined
- Standards
- Computer Assisted Audit Techniques
- Let's Talk Data
- Data analysis examples
- Key Takeaways

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- Novation LLC, established in 1998, is the healthcare industry's largest supply chain contracting services company
- Novation serves members of VHA, UHC and Provista, totaling \$40 billion in annual purchasing volume
- Portfolio consists of agreements with approximately 600 suppliers and distributors
- Pricing 3 percent to 7 percent better than the competition
- Analytics and solutions to negotiate and maintain best price
- Expertise to identify and implement cost reduction opportunities

America's Top Hospitals Use Novation

U.S. News and World Report 2010 "Best Hospitals"



#1



Johns Hopkins Hospital
Baltimore

#2



Mayo Clinic
Rochester

#3



Massachusetts General
Boston

#5



Ronald Reagan UCLA
Medical Center
Los Angeles

#6



New York Presbyterian
Hospital of
Columbia and Cornell

#7



University of California
San Francisco
Medical Center

#8



Barnes Jewish Hospital/
Washington University
St. Louis

#9



Hospital of the University
of Pennsylvania
Philadelphia

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What is Fraud?

The ACFE's *2010 Report to the Nations on Occupational Fraud and Abuse* defines Occupational Fraud as:

“The use of one’s occupation for **personal enrichment** through the **deliberate** misuse or misapplication of the employing organization’s resources or assets”

The IIA’s *International Professional Practices Framework* defines Fraud as:

“... any illegal act characterized by **deceit**, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure **personal or business advantage.**”

Standards

- ISACA IS Auditing Guideline G3: Use of Computer-Assisted Audit Techniques
- IIA's Fraud Related Standards: Internal Auditors must:
 - “....**have sufficient knowledge** to evaluate the risk of fraud....” (IPPF 1210.A2)
 - “....**exercise due professional care**....” (IPPF 1220.A1)
 - “....evaluate the **potential for the occurrence of fraud** and the manner in which the organization **manages fraud risk**.” (IPPF 2120.A2)
 - “....**consider the probability of significant errors, fraud,** noncompliance, and other exposures when developing the engagement objectives.” (IPPF 2210.A2)

What are CAATs?

- CAAT = Computer Assisted Audit Techniques
- My pet peeve
- What aren't CAATs?

Benefits of CAATs

- Faster detection of fraud, catching fraud before it escalates
- Analyze large volumes of transactions that apps like Excel just can't handle
- Combine “mash” data from multiple systems
- Profiling: level of risks in account balances, classes of transactions
- Reduce manual testing hours
- Can serve as a deterrent to prevent future fraud

Test 100% of transactions

- Internal control systems can have control weaknesses. Sometimes the IT controls are never even turned on!
- Sampling can miss smaller anomalies, which can point to weaknesses that may later be exploited causing a material fraud
- Fraud isn't representative of a sample, it doesn't occur randomly
- No bias of opinion... the data speaks for itself

Obtaining The Source Data

- All of your time spent analyzing will be meaningless if your data isn't reliable
- You need **DIRECT** access to the source database in order to have the highest level of confidence that your data is complete, valid and accurate
- Does that make you cringe?
- Political issues:
 - Ask nicely, with a smile =)
 - Read only access!
 - Your Internal Audit Charter should authorize access for your group, provided the data is necessary to perform IA functions
 - Privacy issues – if gaining access to confidential data, check company policy for extra training requirements

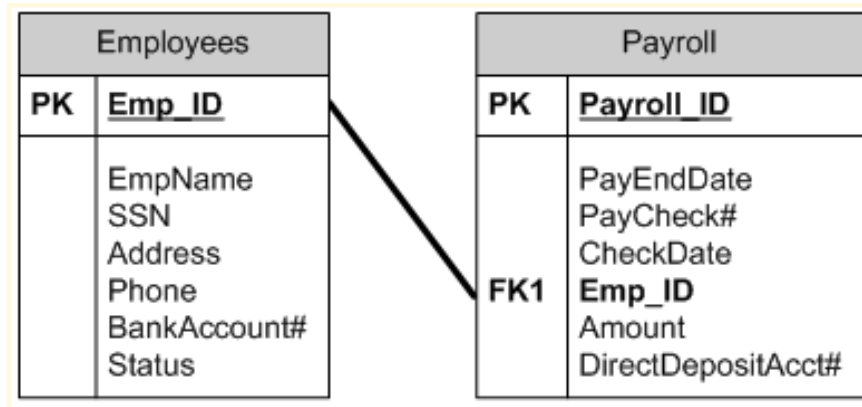
Accessing The Source Data

- ODBC – Open Database Connectivity
- Source as close to the point of origin as possible, for example the production database rather than a data mart
- Large/complex queries can impact performance of the production system. If possible, extract a data dump one time to your local server, thus limiting any impact to one query.
- Keep data in its original character set and minimize conversions which can alter or truncate the source data

Prepare The Data – Make It Pretty

- Perform a few sanity checks
 - Data integrity: complete, valid, accurate
 - Reconcile with source system: # records, control totals
- Make the data pretty
 - Adjust field lengths, if necessary to do comparisons
 - Remove unwanted characters like hyphens, leading/trailing spaces
 - Corresponding descriptions for codes/keys

Do you know the difference between these join types?



Join Properties [?] [X]

Left Table Name: [v]

Right Table Name: [v]

Left Column Name: [v]

Right Column Name: [v]

1: Only include rows where the joined fields from both tables are equal.

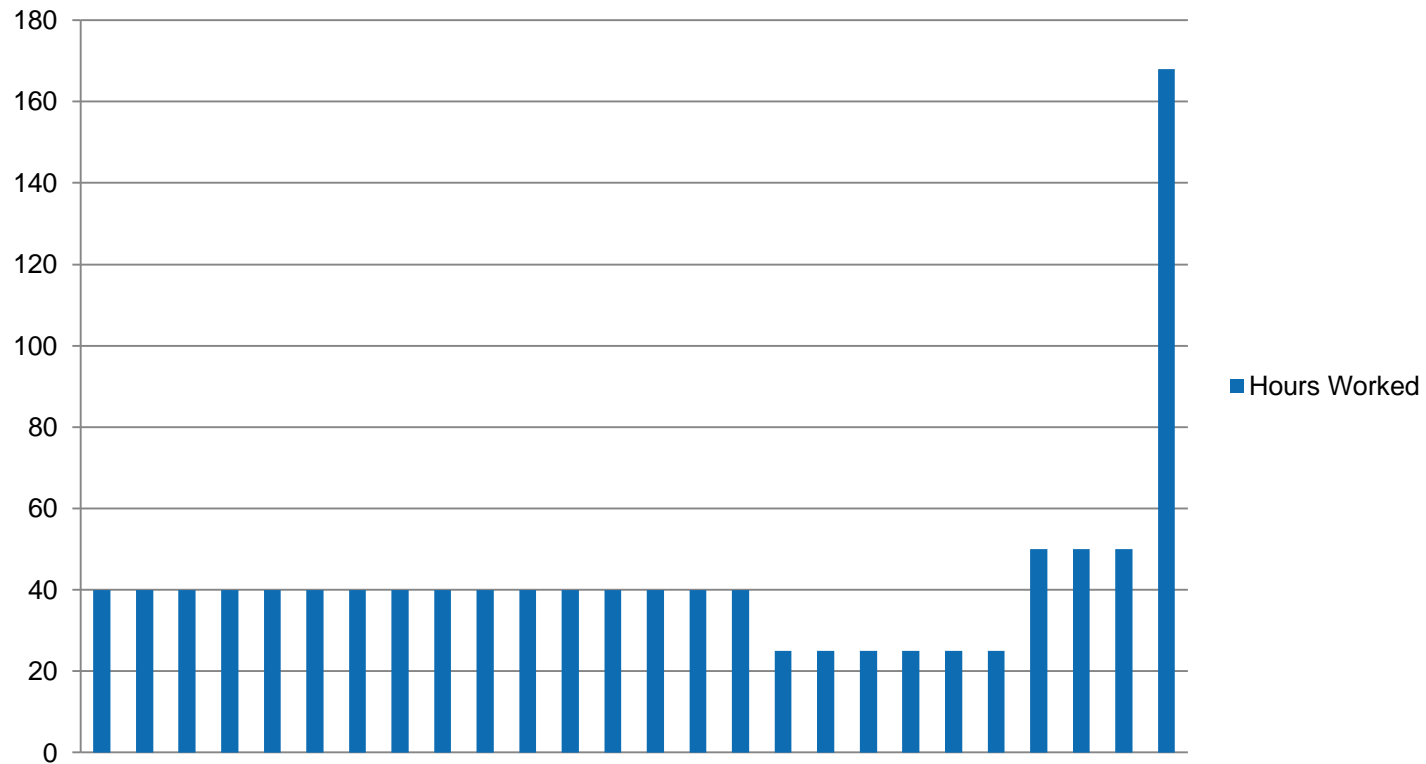
2: Include ALL records from 'Employees' and only those records from 'Payroll' where the joined fields are equal.

3: Include ALL records from 'Payroll' and only those records from 'Employees' where the joined fields are equal.

Profiling

- Profiling: Allowing the data to lead you to the evidence

Employee Hours Worked - Week 1



Fraud Analytics Areas

- Accounts Payable
- Accounts Receivable
- Cash Disbursements
- Credit Card Management
- Deposits
- General Ledger
- Conflict of Interest
- Kickbacks
- Insurance claims
- Materials Management
- Salaries and Payroll
- Vendor Management

On your next project, remember these key takeaways:

- Direct access to data
- Knowing which join to use
- Perform sanity checks often

Contact

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