



Fraud Prevention and Detection in Healthcare Procurement

Staying ahead of the game



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Speaking with you today



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Agenda

- **Introduction to Procurement Integrity**
 - What is procurement integrity
 - Trends and statistics
- **Aligning detection and prevention strategies to procurement integrity risks**
 - The Procurement Integrity Management Approach
 - Fraud in the four stages of the supply chain – prevention and detection
- **Continuous Monitoring**
 - Risk Assessment
 - Behavioral Red Flags
 - Overview of reputation / asset protection
 - Use of data analytics to improve procurement performance
- **Response Strategy**
 - Developing an incident response strategy
 - Conducting Investigations
- **Recap**



Introduction to Procurement Integrity

What is procurement integrity?

Procurement Integrity can be defined as consistent adherence to:

- the values of honesty, fairness and incorruptibility; and
- the principles of corporate, environmental and social responsibility;

in the process of acquiring goods and/or services at the best possible total cost of ownership to meet the needs of the purchaser in terms of quality and quantity, time, and location.

Procurement Integrity is **under constant threat from corruption:**

- Erodes the values and principles essential to Procurement Integrity
- May impact negatively on cost, quality, quantity, time and location of procurement



How big a problem is it?

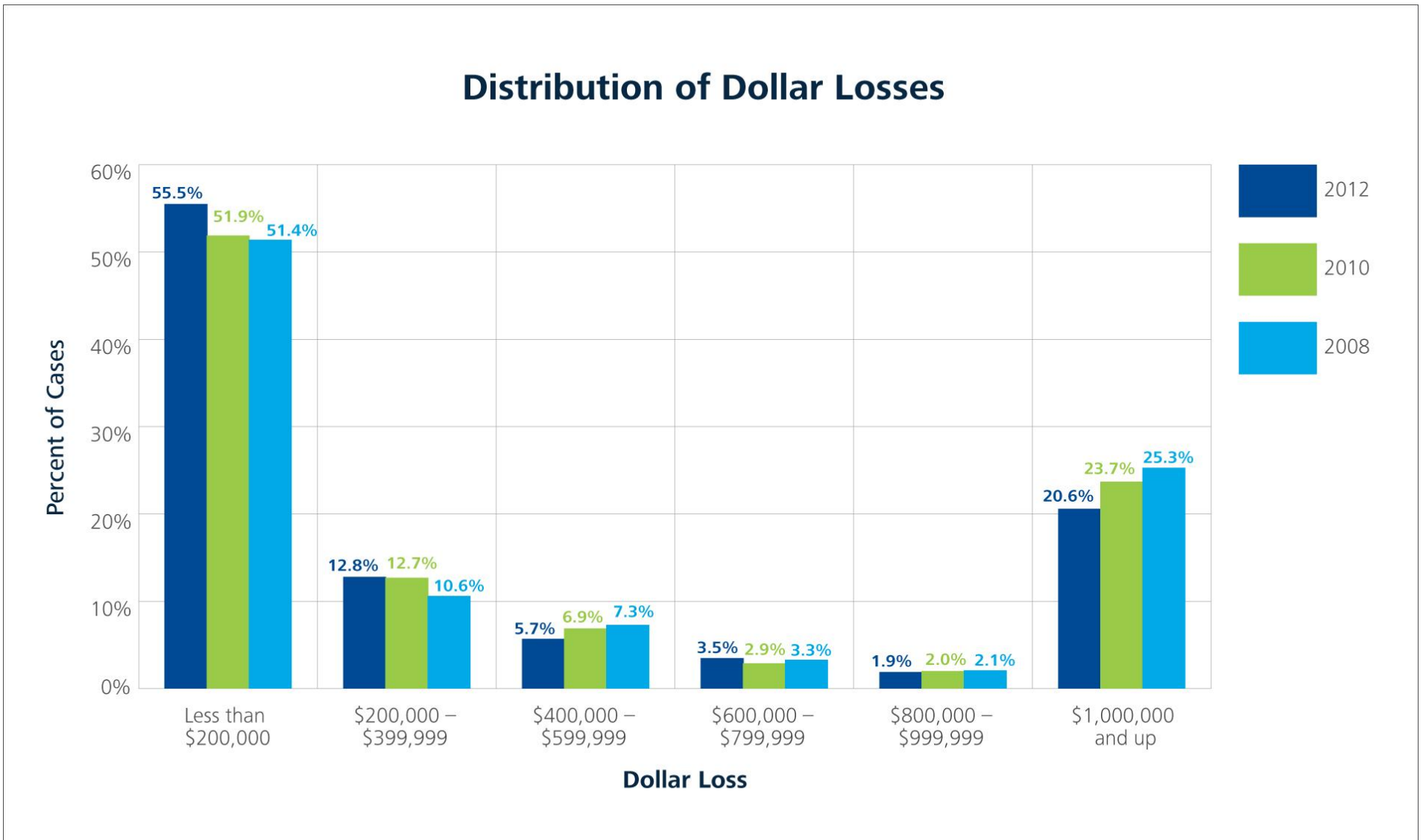


Management often allow corrupt staff to resign:

- Sends the message that corruption does not have any real consequences
- Erodes the general fabric of society → corrupt person spreads corruption further
- Could further expose organisation → could end up in employ of supplier/customer.

- Procurement amounts to up to 16% of expenditure in the public sector
(Organisation for Economic Co-operation and Development, 2013)
- Transparency International (“TI”) survey indicates that political parties are viewed as most corrupt and 54% of respondents will pay more to buy from corruption-free companies
(2013 Transparency International Global Corruption Barometer)
- Companies with interests in APAC view corruption as a major or severe obstacle to operation and growth of their business
(World Bank Investment Climate Survey)

Distribution of average fraud losses



What is the impact on victim organisations?

- APAC governments pay 20 - 100% more for goods and services because of corruption
(Organisation for Economic Co-operation and Development)
- The typical organization loses 5% of annual revenue to fraud → Estimated 2011 Gross World Product → Potential total fraud loss of \$3.5 trillion
(ACFE Report to the Nations on Occupational Fraud and Abuse – 2012 Global Fraud Study)
- Fraud: ↑ cost of doing business; ↓ volume and efficiency of investment; ↓ economic growth
(1999 World Bank Development Report)



Procurement fraud in the news

3 individuals and corporation indicted in \$54 million procurement fraud scheme involving contract for services in Afghanistan

SALT LAKE CITY — Three individuals and a corporation are charged with fraud and bribery in connection with their alleged role in a multi-dollar fraud scheme involving the procurer of a military contract for services in Afghanistan, according to an indictment returned by a grand jury in Salt Lake City Wednesday.

The charges follow an investigation by the U.S. Immigration and Customs Enforcement's (HSI), the Department of Homeland Security Investigations Service (DCIS), and the Federal Bureau of Investigation.

SLA wins damages judgment against wife of ex-staff

SINGAPORE: THE Singapore Land Authority yesterday obtained judgment against the wife of Koh Seah Wee, its former deputy director, as part of its efforts to recover \$12.2 million in damages as a result of a conspiracy to cheat the agency.

Koh, an ex-deputy director of SLA's technology and infrastructure department, and Lim came up with fake quotations, which Koh would approve, to cheat the SLA and circumvent safeguards in its procurement system.

SINGAPORE: Ministries and government agencies have come under fire from Auditor General for lax procurement and contract management.

Sept. 23 (Bloomberg) -- China's tainted-milk scandal exposes flaws in how companies buy dairy products, meat and vegetables and raises concern about wider chemical contamination in the country's food industry, according to analysts and law firms.

Most companies buy supplies from an unregulated network of local farmers, making it hard for them to ensure the quality of the final products, said Brian Yu, a partner at J.L. McGregor & Co., a China-focused research company.

Drug Giant AstraZeneca to Pay \$520 Million to Settle Fraud Case

Pharmaceutical giant AstraZeneca will pay \$520 million in fines to settle charges by the federal government that it illegally marketed the anti-psychotic drug Seroquel to children and elderly patients for uses not approved by the Food and Drug Administration.

AstraZeneca, one of the country's biggest drug firms, allegedly pulled in hundreds of millions of taxpayer dollars through Medicare and Medicaid kickbacks and scams.

Justice Department Recovers Nearly \$5 Billion in False Claims Act Cases in Fiscal Year 2012

The Justice Department secured \$4.9 billion in settlements and judgments in civil cases involving fraud against the government in the fiscal year ending Sept. 30, 2012, Tony West, Acting Attorney General, and Stuart F. Delo, Deputy Assistant Attorney General, announced.

Government agencies still prone to lapses

The latest annual report from the Auditor-General's Office, which audits the Government and the public sector, shows that there are irregularities and slip-ups in procurement processes in ministries and government agencies.

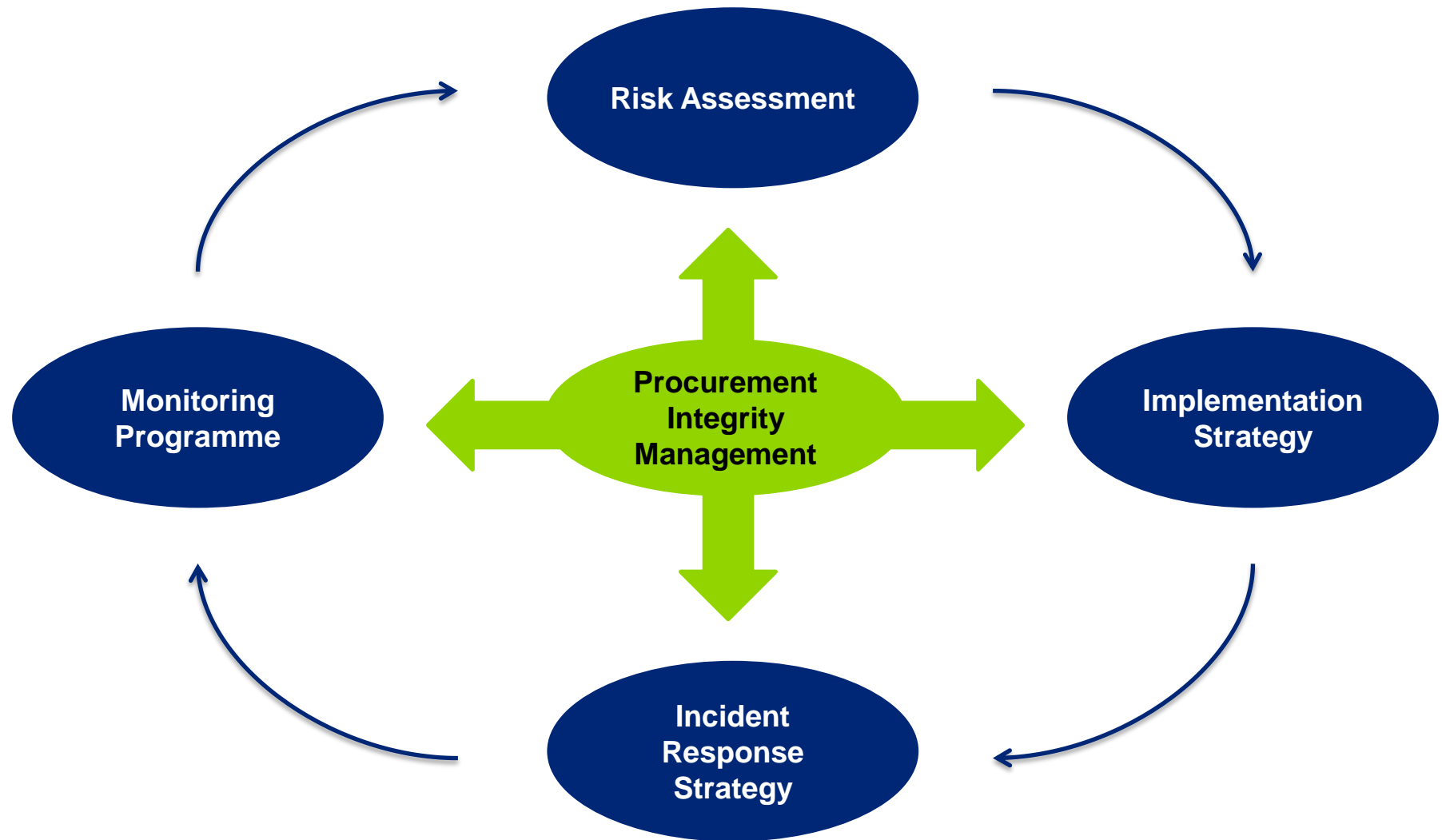
This figure constitutes a record recovery for a single year, eclipsing the previous record of \$1.7 billion, and brings total recoveries since January 2009 to \$11.7 billion, the largest four-year total in the Department's history and a record since the act was introduced in 1986.

GSK's Chinese lesson

It is not just a matter of pride and reputation for GSK that it will need to prove that its China-based executives were engaged in rogue, unauthorised behaviour when allegedly bungling £320m to doctors and officials to secure drug orders. The company is braced for fines in China. And, since it is fairly clear that the Chinese government is thinking about how to reform the structure and practices of its health service - especially how pharmaceuticals are procured and how much is paid for them - GSK is mulling whether it can make a gesture that would be seen to support such reforms.

Aligning detection and
prevention strategies to
procurement integrity risks

Procurement Integrity Management Approach



Reduce cost

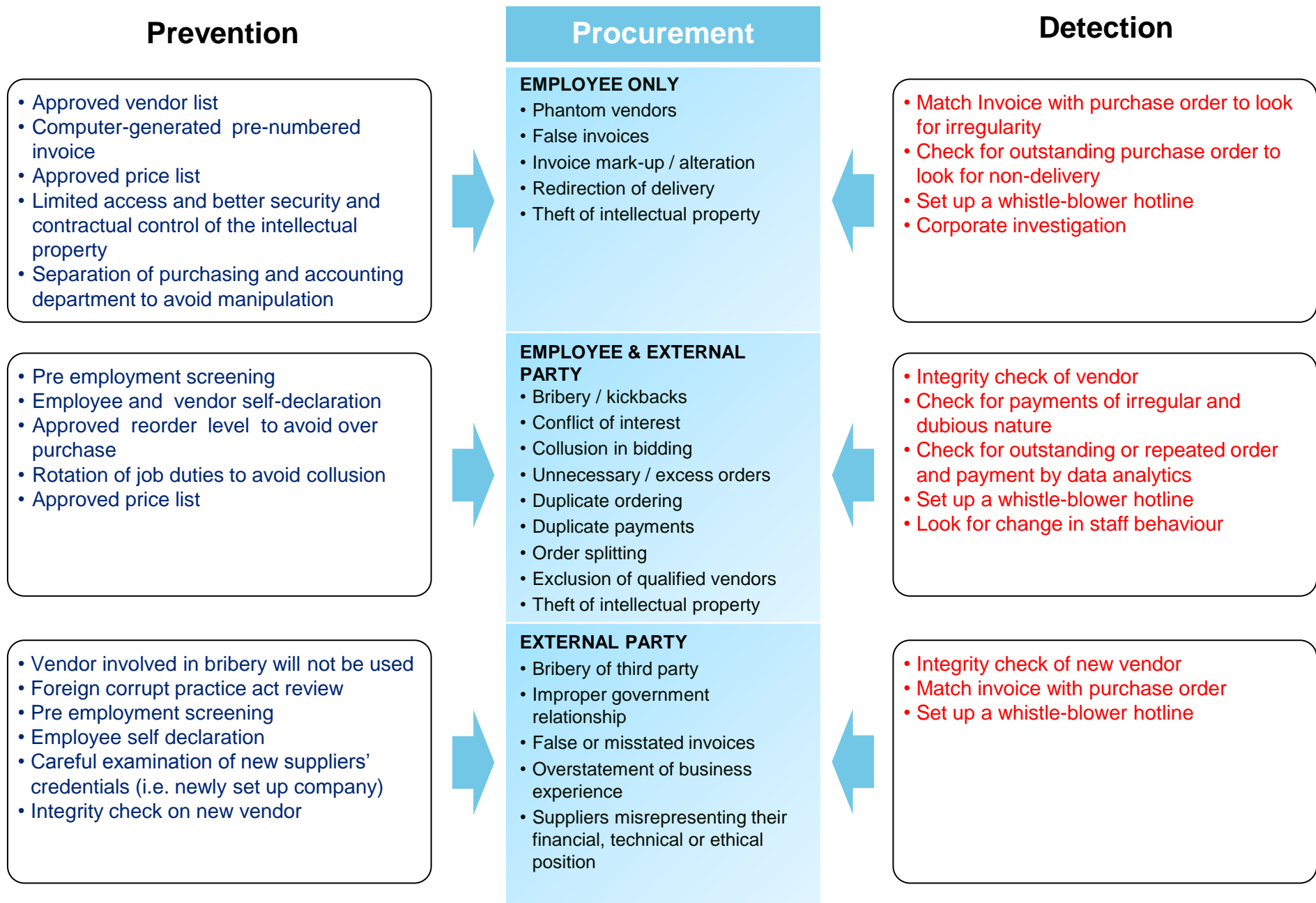
Increase efficiency

Mitigate risk

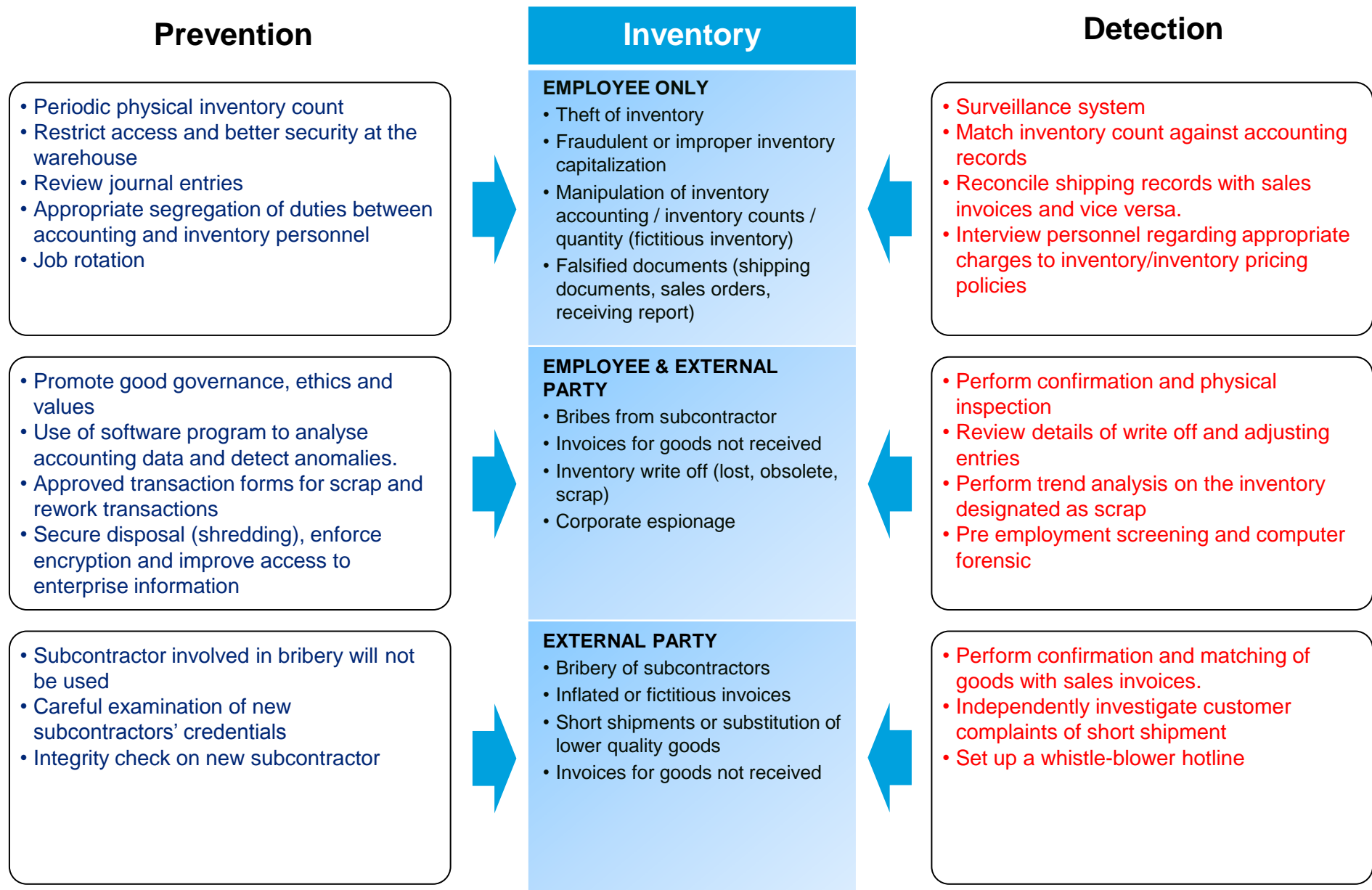
Procurement Integrity Risk Matrix

	Procurement	Inventory	Production	Distribution
Employee only	<ul style="list-style-type: none"> • Phantom vendors • False invoices • Invoice mark-up / alteration • Redirection of delivery • Theft of intellectual property 	<ul style="list-style-type: none"> • Theft of inventory • Fraudulent or improper inventory capitalization • Manipulation of inventory accounting / inventory counts / quantity (fictitious inventory) • Falsified documents (shipping documents, sales orders, receiving report) 	<ul style="list-style-type: none"> • Theft of intellectual property • Inaccurate / falsified forecast of raw materials, spare parts or finished goods • Theft of raw materials, finished goods or scrap • Sales of backdoor goods • Redirection of business to an undisclosed related party • Personal use of inventory or assets • False reporting (under declaring the emissions) for industry subject to environment regulations 	<ul style="list-style-type: none"> • Theft of finished goods • Mark up transport costs • Falsified distribution records • Grey market distribution
Employee & External Party	<ul style="list-style-type: none"> • Bribery / kickbacks • Conflict of interest • Collusion in bidding • Unnecessary / excess orders • Duplicate ordering • Duplicate payments • Order splitting • Exclusion of qualified vendors • Theft of intellectual property 	<ul style="list-style-type: none"> • Bribes from subcontractor • Invoices for goods not received • Inventory write off (lost, obsolete, scrap) • Corporate espionage 	<ul style="list-style-type: none"> • Kickbacks / bribes may lead to bias in selection of suppliers / vendors, inflate forecasts of raw materials or finished goods requirements or sabotage production (also known as industrial espionage) • Theft of intellectual property • Bribery of government employees • Illegal trading of carbon credits 	<ul style="list-style-type: none"> • Collusion with transporters • Channel stuffing • Theft of intellectual property • Theft of finished goods • Sales of backdoor goods • Collusion with distributor / reseller • Grey market distribution
External Party i.e. Supplier/ Distributor/ Competitor	<ul style="list-style-type: none"> • Bribery of third party • Improper government relationship • False or misstated invoices • Overstatement of business experience • Suppliers misrepresenting their financial, technical or ethical position 	<ul style="list-style-type: none"> • Bribery of subcontractors • Inflated or fictitious invoices • Short shipments or substitution of lower quality goods • Invoices for goods not received 	<ul style="list-style-type: none"> • Unqualified consultants • Misrepresentation of technical capability and / or capacity by suppliers / vendors 	<ul style="list-style-type: none"> • Distribution of counterfeit products by competitors • Bribery of customers by competitors • Theft of finished goods • Reseller / distributor misrepresenting technical, financial or ethical position • Sabotage of finished goods

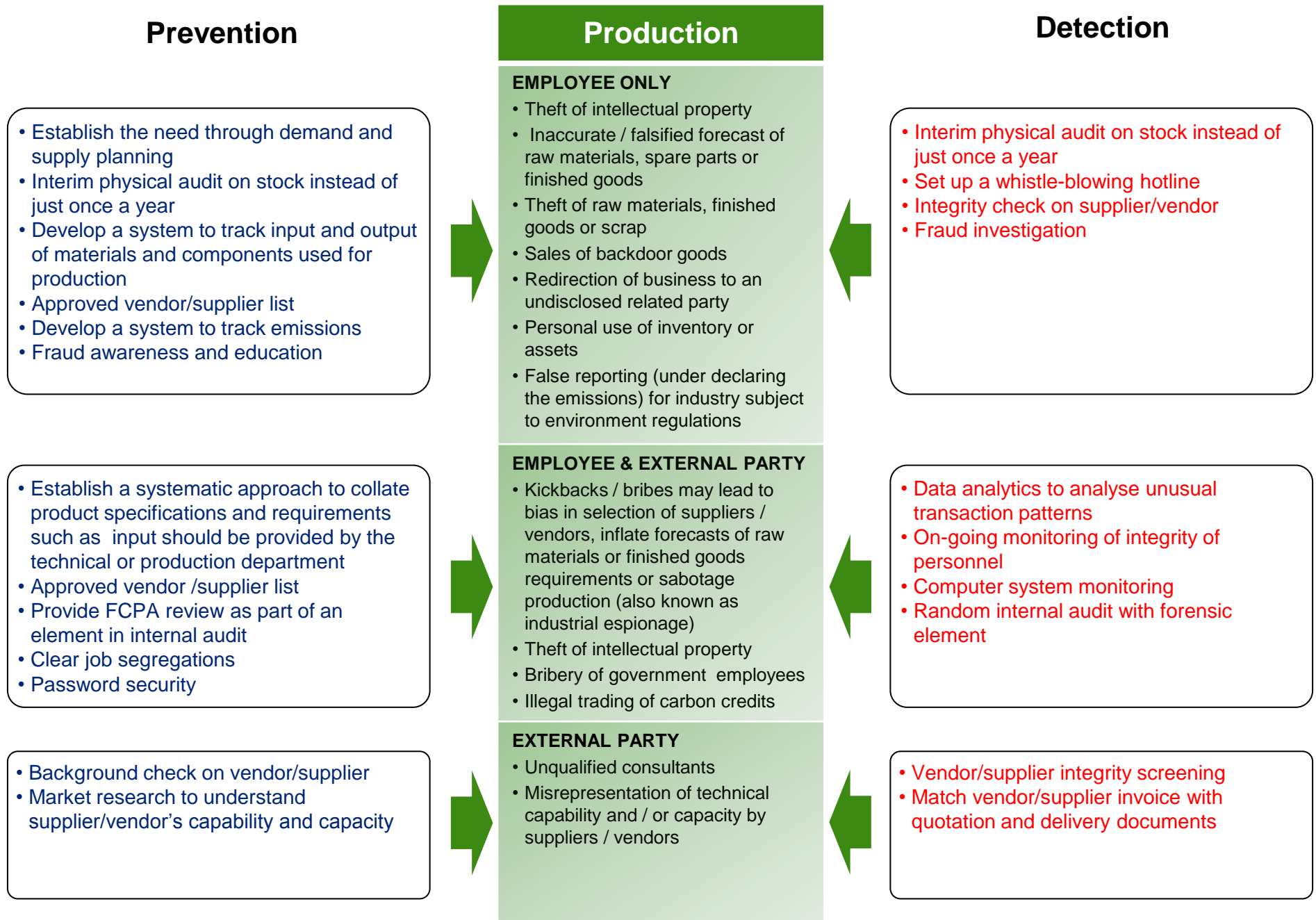
Procurement – prevention and detection



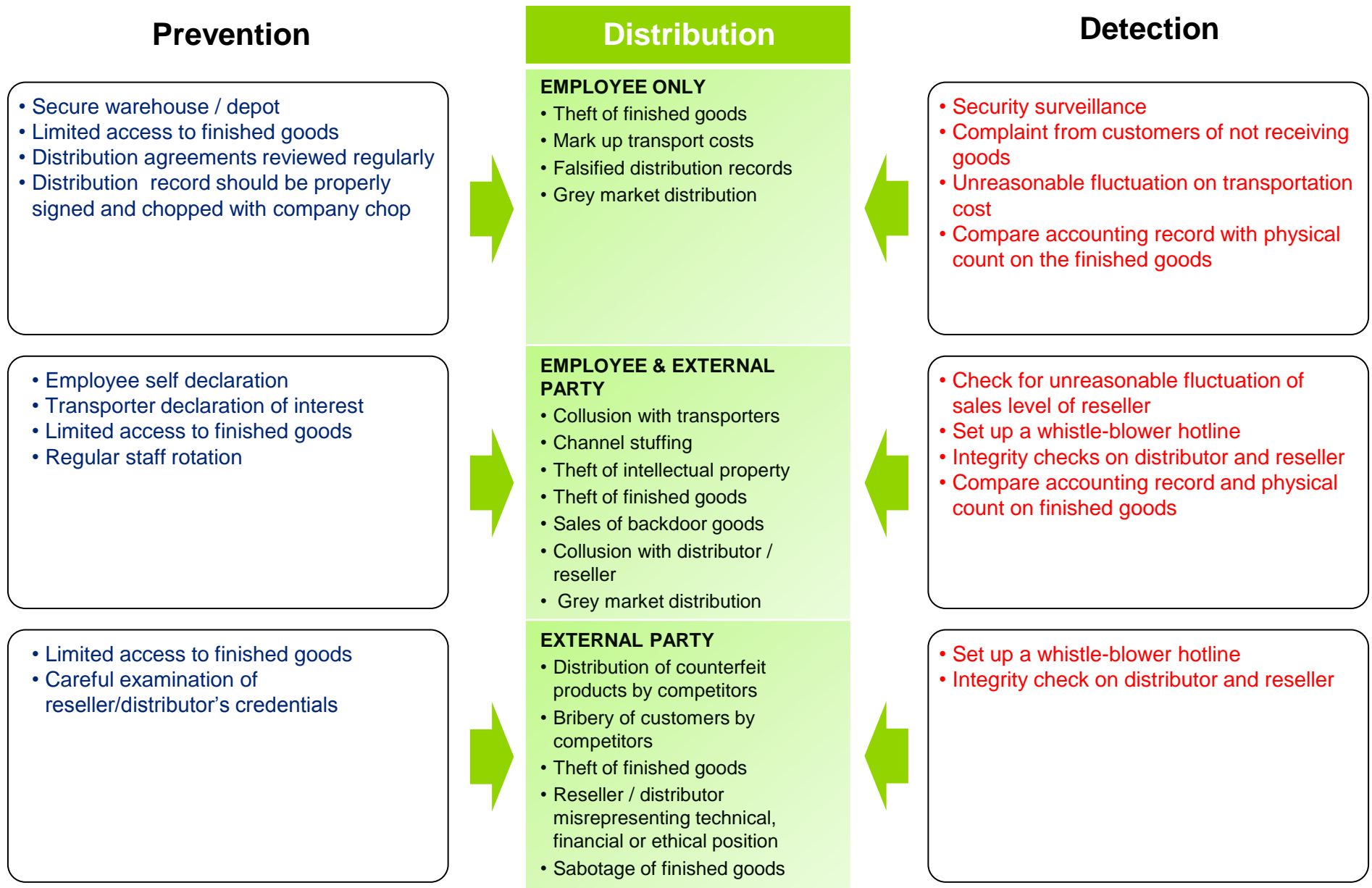
Inventory – prevention and detection



Production – prevention and detection



Distribution – prevention and detection



Continuous monitoring

Why Monitor Integrity Risk?

- If you are reliant on suppliers who are able to operate with little or no oversight, you run the risk of your suppliers taking advantage of various schemes that may be contrary to your interests
- If you are a supplier to other organisations, you may want to ensure that your own procurement and manufacturing processes do not expose you to risks associated with your upstream clients. Ongoing monitoring of your procurement integrity is therefore a must.



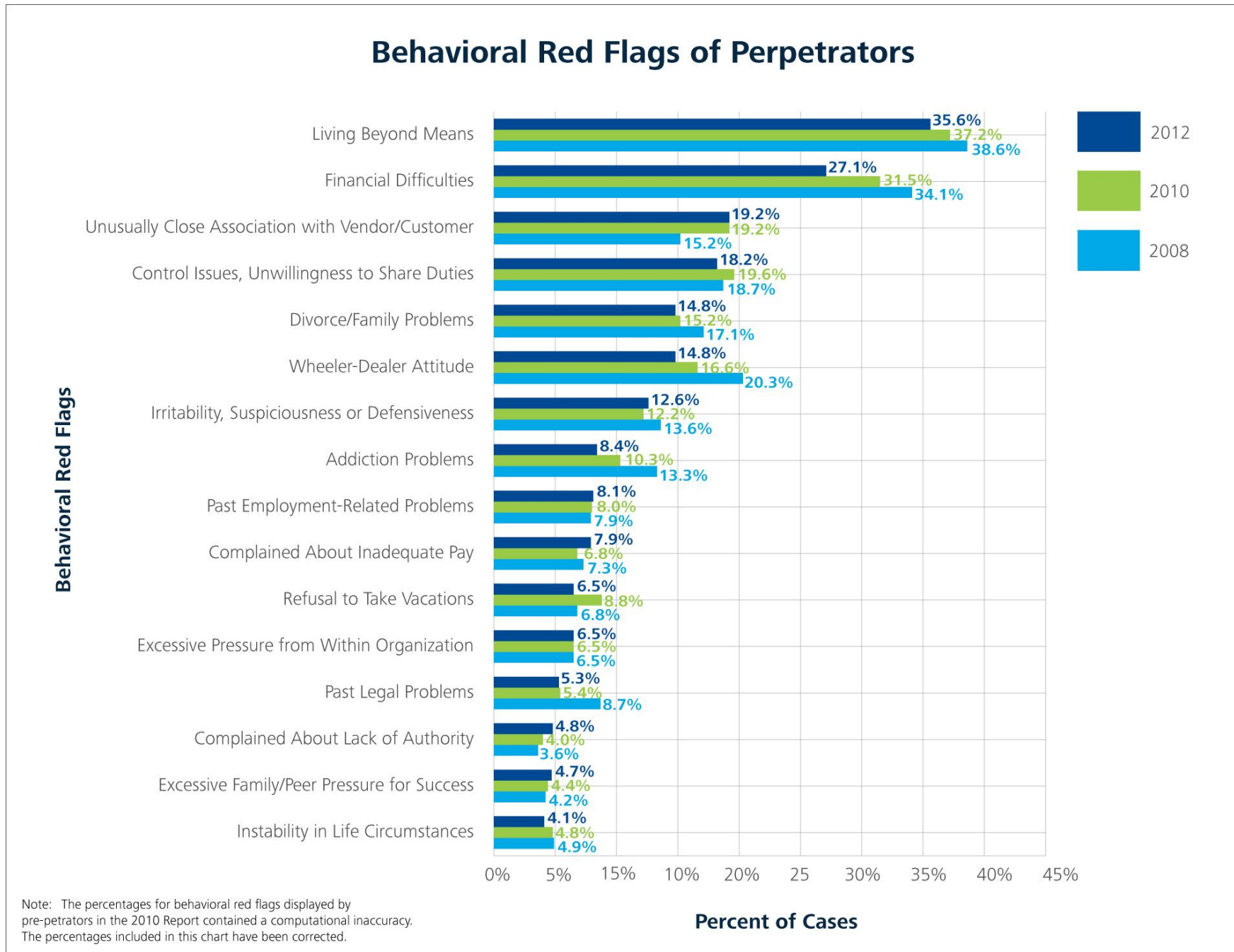
- A practical approach to developing and implementing a Procurement Integrity Monitoring Programme, should focus on aspects such as:
 - Supplier and client integrity monitoring
 - Pro-active business and data analysis
 - Pro-active risk monitoring.

Risk Assessment

Areas to consider as part of a risk assessment include:

- Sufficiency of compliance programs
- The use of and the role of third parties
- The level of due diligence on third parties used
- Potential red flags previously identified by Internal Audit or Compliance
- Previous reports of an anti-bribery and corruption nature
- High risk areas
- Payments made to third parties
- Sales methods
- Distribution networks
- Interaction with state-owned businesses and government officials
- Existence of business partnerships or joint ventures
- Existence/Availability of incentives or reimbursements for customers or third-party distributors
- Payments to state officials who are able to influence products

Behavioral red flags



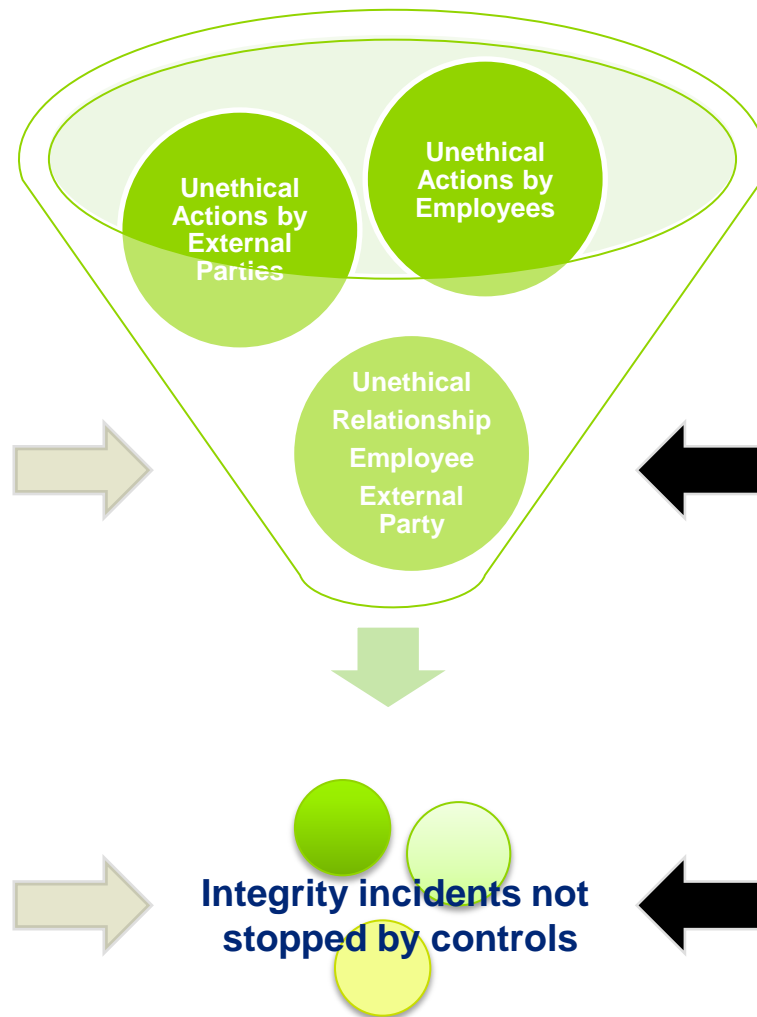
The Big Picture - Overview of reputation / asset protection

Standard approaches to asset protection

- Right tone at the top
- Policy and procedures
- Better internal control
- Authority levels and authorisation
- Information management restrictions
- Corporate governance framework
- Employee competency training
- Code of Conduct or ethical standards
- Security access controls
- Segregation of duties

Standard approaches to monitoring and response

- Internal Audit process
- External Audit process
- Compliance testing
- Dedicated security monitoring
- Whistle-blower hotline



Forensic enhancement to asset protection

- Fraud risk management framework
- Integrity due diligence on vendors & other business partner.
- Integrity pre employment screening
- Anti bribery controls
- Business ethics training
- Integrity risk analysis – location & industry
- Ethics risk surveys
- Anti counterfeit programmes

Forensic enhancement to monitoring and response

- Computer forensics
- Data analytics
- Employee / external party relationship analysis
- Investigation response programme
- Financial stability review
- Asset tracing
- Corporate investigation

The use of Data Analytics to improve procurement performance

Computer forensic or data analytics is one of the important steps in fraud prevention and detection. With its help, we can identify suspicious transactions from hundreds of thousands accounting entries.

We can also generate additional cost benefits to the company by conducting best-price or best-reorder analysis on accounting data (i.e. sales, inventory, account receivable, account payable, purchase) collected from client's company.

Fraud prevention	Cost reduction
1. Identify duplicate and invalid suppliers	1. Best price analysis
2. Identify excessive purchases which are not required	2. Best reorder point analysis
3. Check for payments made to invalid suppliers	3. Inventory management system
4. Check for inflated prices due to related party transactions	4. Spending profile analysis
5. Identify suspicious or irregular procurement and spending patterns	5. Cash flow management
6. Check for fluctuation in inventory levels and write-offs	6. Supply chain analysis
7. Increase in overhead expenses but the production level does not follow	7. Credit risk analysis

Response Strategy

How to develop an incident response strategy

Policy and procedures	Capacity creation
<ul style="list-style-type: none">▶ <i>Incident resolution policy and procedure</i>▶ <i>Emergency provision in financial approval process for quick access to funds for incident response costs</i>▶ <i>HR policies, procedures and responsibility</i>▶ <i>External and internal communications strategy</i>▶ <i>Policy and procedure in respect of indemnity insurance against, civil recovery, criminal prosecution and regulator involvement</i>	<ul style="list-style-type: none">▶ <i>Budgeting for incident response costs</i>▶ <i>Designation of responsibility and decision matrix to guide decision making</i>▶ <i>Designation of incident response team to deal with serious incidents</i>▶ <i>First responder procedure to ensure that potential incidents are reported to the appropriate persons</i>▶ <i>Incident resolution capacity, i.e. staffing / training of internal resources with skills</i>▶ <i>As alternative, or in addition to internal resources, pre-selected external resources that may be called upon to assist in resolving specific incidents</i>

Conducting investigations

Secure the data

- It is easy for data to be lost, destroyed or tampered with, even by those with the best of intentions
- Follow proven forensic procedures - you will need to rely on the data if the matter ends up in court

Let people know about it

- Tell your staff you are investigating a fraud
- You will be surprised what they will tell you, many will already know about the fraud, and others

Investigate thoroughly, no assumptions

- Expense claims, conflicts of interest, procurement fraud are always present and increasing now

Use all available tools to reduce costs

- Technology can do the work of many people – lower cost for same volume and quality of reporting

Do not ignore the obvious

- Never, never, never say: Oh, they would never do that!
- People are people and when Pressure, Opportunity and Rationalisation converge, fraud will occur

Do not attempt to do something you do not have the skills to do

- Admit to yourself when you are out of your depth and obtain specialist help
- Hollywood TV series and movies are not real!



"Interesting ambition, Freddie. And what will you be if large corporations are no longer hiring rogue accountants?"

Re-cap

- **Introduction**
 - What is procurement integrity
 - The magnitude of consequences
- **Detection and prevention strategies to procurement integrity risks**
 - The Procurement Integrity Management Approach
 - Fraud in the four stages of the supply chain – prevention and detection against threats from internal, external and both internal and external personnel
- **Continuous Monitoring**
 - Areas that can be considered for risk assessment
 - Behavioral red flags
 - Overview of reputation / asset protection - standard and forensic measures to address integrity incidents
 - Using Data Analytics to improve procurement performance
- **Response Strategy**
 - Developing an incident response strategy
 - Guidelines for conducting investigations

Q&A



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