

Association of
Certified Fraud Examiners
Greater Chicago Chapter



www.acfechicago.org

Spring 2008

A Message from the President

It feels as though spring has sprung – finally! What a long winter it was in Chicago. Nevertheless, in many ways it went by fast, just as spring surely will! One thing spring always means for our Chapter is that it's time to gear up for elections of open positions on the board of directors that will be held in late May or early June.

Throughout the years I have interacted with many of you and I'm proud to say that there are lots of new faces out there to go along with so many of you who have been actively involved in the Chapter for many years. I'd like to call on those new faces to get involved. Serving on the board is a terrific way to meet and work with your peers and share ideas. If you would like to help out, I encourage you to run for one of the open positions. It's a great learning experience and really gives you the chance to get an understanding of all that goes on in the world of CFE's.



If serving on the board is not your thing, I encourage you to help with the election by serving on our nominating committee. We need three CFE's to serve on the committee and help ensure that we have great candidates and a smooth election. If you are interested, please call the chapter office at 815-NO FRAUD and let Chris Glatz or Karen Hyland know that you are willing to help.

As usual, I hope you enjoy the writings of our regular contributors, and as always, please let me know if I can be of any assistance.

All the best,

Mark Sullivan, ACFE Greater Chicago Chapter President

Mission Statement

The mission of the Association of Certified Fraud Examiners is to reduce the incidence of fraud and white-collar crime and to assist the Membership in its detection and deterrence. To accomplish our mission, the ACFE...

- Provides bona fide qualifications for Certified Fraud Examiners through administration of the CFE Examination
- Sets high standards for admission, including demonstrated competence through mandatory continuing professional education
- Requires Certified Fraud Examiners to adhere to a strict code of professional conduct and ethics
- Serves as the international representative for Certified Fraud Examiners to business, government and academic institutions
- Provides leadership to inspire public confidence in the integrity, objectivity, and professionalism of Certified Fraud Examiners



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Ring Around the White Collar

By Robert Quillinan, MBA, CFE

Welcome back fraud fighters. I bring you a couple of items this time that will assure all of us that we should have job security for years to come.

Only the best and the brightest.

In early April of this year, young Jennifer Batiste, made the long climb up the front steps of the U.S. Federal court building in Los Angeles. She had an important appointment, the kind you don't want to be late for. She was turning herself into the FBI.

Seems Batiste was working at the Social Security Administration, in one of those mundane clerical functions. She longed for a few of the better things in life, but she felt that was all just a dream. Then she met the man that could make her dreams come true.

Craig Harris was a 50+ year old from Los Angeles. He had bounced around several suspect businesses over the years. He approached Batiste through a common friend. He asked her if she could help him with his business, tracking people for law firms and credit bureaus. He would give her names and addresses and she would provide other information, such as dates of birth and social security numbers. She could do all this right at her very own government computer. No one would have to know, just the two of them. Harris, ever the businessman, offered to pay her twenty whole dollars for each name. Ok, at \$20, maybe she couldn't order a new Beamer, but twenty bucks was twenty bucks. The deal was struck.

Over the next several months, Batiste would get a call at home from Harris and she would get a list of names and she would gather the information and drop it off to Harris.

Now, how many of you think that Harris may have been less than truthful with young Ms. Batiste?

That's right, all of us think that Harris may have told just a little white lie. Seems Harris was running a credit card scam. He was using the information to apply for credit cards in the names of those that Batiste was obtaining information on.

Harris ran up in excess of \$2.5 million of charges based on the information he obtained from Batiste. Then, because he held one of the cards too long, he got caught. Being the wise businessman, he immediately ratted out everyone else to the US Attorney's office and agreed to testify against everyone, including Ms. Batiste.

I wonder what Ms. Batiste was thinking of when she made her way up those stairs?

The ghost of Andersons past.

When the Federal Government needs a procurement agent, who can they turn to? How about a big time consulting firm? How about a consulting firm with a history of exemplary performance? How about Accenture. Yes, that Accenture.

In a Qui-Tam lawsuit filed in 2004, two employees allege that Accenture was hired to procure and oversee the obtaining of certain information technology assets. They were paid to get the best technology at the most reasonable cost.

Accenture sent an army of associates to numerous Federal agencies. Accenture then proceeded to act as the agent of these agencies in the purchase of new software and IT related hardware. Accenture entered into contracts with dozens of IT related companies including Sun Microsystems, IBM, HP, SAP and other companies with catchy capital letter names.

Now maybe Accenture was unsure of what they were suppose to do or maybe they thought part of their fees included any side markers they could put together. Maybe, maybe,maybe.

In the multi-count lawsuit filed recently, the Justice Department

alleges that Accenture performed the following “services” outside the scope of their original contract.

- Booked a \$450,000 kickback from IBM as a consulting fee for “favorable treatment and influence”. Now, I’m not a CPA, but I think I could come up with better language to book a kickback.
- Illegally kept \$16,800,000 from the Defense Logistics Agency through side agreements with SAP, HP, Oracle and others.
- The one I liked best, made an agreement with Sun to pay rebates on equipment bought by government agencies directly to Accenture. (I wonder if some poor associate had to fill out rebate forms and cut out the barcodes for every laptop that the government purchased.)

The list goes on, but if you’re really interested, you can go to the Justice Department web site and read the whole thing.

It’s never good when the Justice Department states in the complaint, “Defendants have exploited the trust of the Government has reposed in them....”. Do you wonder if anyone at Accenture sent a reminder email concerning the **Records Retention Policy** out to the staff, not that it would have anything to do with the lawsuit.

Robert J. Quillinan, Manager, may be reached at 847.582.6546.

The Subprime Crisis Update

By Rex Homme, CPA, CFE

The impact of the subprime mortgage crisis continues to pull down the US economy. Skyrocketing foreclosure rates, falling housing prices, and the volatile stock market all due to the subprime crisis continue to dominate the news. As the first quarter of 2008 comes to a close, US companies are continuing to be impacted while significant implications are arising within the international banking industry.

Wall Street firms such as Merrill Lynch, Citicorp, and Bear Stearns reported significant 2007 losses due to the crisis. However, while Bear Stearns suffered smaller losses than Merrill Lynch and Citicorp, Bear Stearns’s dependence on the mortgage bond industry has led to its struggle for survival.

Saving Bear Stearns

Bear Stearns is one of the nation’s largest underwriters of mortgage bonds and the fifth largest investment house. Last summer’s implosion of two Bear Stearns hedge funds totaling \$1.6 billion of investor capital crippled the company. Shareholder suits were filed and regulatory investigations were underway. However, the recent US government’s bailout of Bear Stearns to keep the firm from total collapse is a telling moment of the severity of this crisis. The Federal Reserve approved a \$30 billion credit line to assist JP Morgan Chase in purchasing Bear Stearns at the lowly price of \$2 a share (although subsequent negotiations pushed Chase’s offering price to \$10 a share). Bear Stearns’s downfall has been dramatic, considering that its stock traded around \$150 a share one year ago and approximately \$80 a share in early March. If not for the action of the Federal Reserve, Bear Stearns surely would have been forced to file for bankruptcy protection from its creditors.

Although many lawmakers and taxpayers have questioned why the federal government stepped in to assist

About ACJE Newsletter

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Bear Stearns, the Federal Reserve Chairman, Ben Bernanke, recently told the Senate Banking Committee, "Given the exceptional pressures on the global economy and financial system, the damage caused by a default by Bear Stearns could have been severe and extremely difficult to contain." Clearly the issue is not merely an attempt by the government to save one company, but to prevent "a run on the bank" on the US financial industry due to the overwhelming impact of the subprime crisis. The government's involvement with Bear Stearns was to allay investors' and creditors' fears that if a company like Bear Stearns collapsed, what could happen to the companies with bigger losses?

International Impacts

The US economic impact from this crisis is well documented, but this crisis has spread well beyond the US borders. In 2008, UBS, a Swiss based company, reported \$21 billion of new asset write-downs on top of the \$20 billion it wrote-off in 2007, all due to the subprime crisis. Although UBS incurred the biggest hit of the European banks, many other banking institutions suffered significant write-downs. A crisis of this magnitude is not only creating significant global losses, but is also tightening credit and investment opportunities, which furthers the impact on the national and global economies.

Expertise Need Continues

As anticipated in the last newsletter, accounting experts and investigators are seeing a rise in engagements due to the number of regulatory and internal investigations. Regulators are asking questions of company management and their audit committees, resulting in the need for accounting and investigative expertise to assist the companies in gathering the facts. In addition to regulatory inquiries, company managements of the different parties involved in the generation through the securitization of the subprime mortgages — mortgage brokers, appraisers, lending institutions, and investment firms—are concerned about their current and potential financial exposure, resulting in increasing numbers of internal investigations.

In addition to the rise of corporate level investigations, employee malfeasance cases will continue to climb. According to the Mortgage Bankers Association, at the end of 2007 approximately 4.2 million mortgages were either past due or in foreclosure. Unfortunately many employees will choose unethical ways to make ends meet. Internal Audit departments and outside experts will be called upon to assist management in these investigations, as well as in performing proactive fraud risk assessments.

As financial experts and investigators, we need to utilize our expertise to educate our firms and clients and provide them with any assistance we can in resolving these situations.

ACFE Greater Chicago Chapter Upcoming Events - 2008

May 12
Monday

Chicago Chapter Lunch Meeting
Hot Topics of Mortgage Lending
Presented by Michael Martin, OCC
Department of Treasury
Location: U.S. Secret Service
Chicago Field Office
525 W. Van Buren St., STE 900

June 16
Monday

National ACFE Training Workshop
Investigating Conflicts of Interest
Location: Hyatt Regency McCormick Place

June 17-18
Tues & Wed

National ACFE Training Workshop
Money Laundering: Tracing Illicit Funds
Location: Hyatt Regency McCormick Place

July 21
Monday

Chicago Chapter Evening Meeting & Networking Reception
Presented by: TBD
Location: TBD, Downtown Chicago

August 11
Monday

Chicago Chapter Lunch Meeting
Topic: TBD
Presented by: TBD
Location: 111 S. Wacker Drive
Jackson Park Room

Sept. 11-12
Thur & Fri

National ACFE Training Workshop
Mortgage Fraud
Location: AMA Executive Conference Center

October 13
Monday

Chicago Chapter Lunch Meeting
Investigative Intuition
Presented by Dan Draz, Corp
Investigations, TansUnion
Location: 111 S. Wacker Drive
Jackson Park Room

December 8
Monday

Chicago Chapter Annual Holiday Luncheon
Location: TBD

DATA Analysis Series: Developing Mitigation Models

By Rebecca S. Busch, RN, MBA, CCM, CFE, FHFMA

"I am a great believer in luck, and I find the harder I work, the more I have of it" Thomas Jefferson. The harder you work on the front end, the luckier you will be in materializing information that will generate productive results. In healthcare, it is a blend of luck generated from well-organized and structured audits and investigations. This series of articles applies a sample series of data analysis models. These models are the results of output activity from data mining. In the data output world, we have a new continuum to monitor, understand, and use as a guide in audit and investigation of fraud. This is referred to as the anomaly continuum. View these as potential frameworks for building data warehouses of information for analysis.

The prior series of articles on data analysis introduced the detection model and investigation model and its various components. This article will continue with the mitigation model for data analysis. The sample case flow is an actual case with hypothetical names.

Healthcare application: Case Example: Dr. Healer Case History

- **Who:** Dr. Healer, M.D.
- **What:** radio host for a program *Medicine Man*; skilled healer with nontraditional practices
- **When:** growing practice over last five years
- **Why:** ?
- **Where:** five walk-in clinic services

Data Set

- **Billing data:** high percentage of complicated visits; Dr. Healer generated bills while traveling in Europe
- **Recent claim data:** visits to chiropractors, acupuncturists, massage therapists, nutritionists, and personal trainers at a gym billed under Dr. Healer's tax ID number and under M.D. CPT visit codes
- **Staff issues:** Dr. Foreign, staff physician, an unlicensed doctor was on staff for \$5 per hour; Dr. Gone continued to bill out of this clinic, although he no longer was associated with the clinic

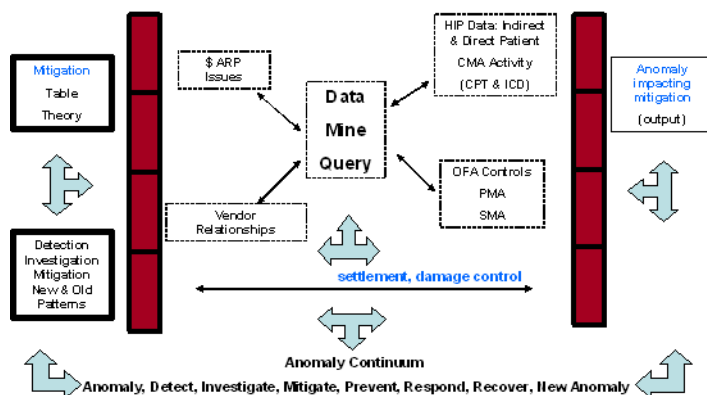
Dr. Healer Statement

"I am just a caring doctor getting reluctant insurance companies to pay for alternative health treatments."

Mitigation Model

The concept of mitigation builds on issues noted within detection and investigation along with the subsequent models to be discussed in this series. Mitigation is the act of reducing or making a certain set of circumstances less severe.

Table 3: Mitigation Model



In the case of Dr. Healer, mitigation occurred in the prosecution of Dr. Healer. Dr. Healer was convicted of false claims and removed from the system as a licensed physician, thereby preventing further harm and loss. Other applicable issues were substandard care and medical unbelievability patterns. What made this case complicated was tracking down Dr. Healer's assets. Ultimately, Dr. Healer did receive a criminal conviction, civil lawsuits were initiated, and he ultimately lost his license.

Mitigation does not stop at the point of conviction of the perpetrator. The findings of this anomaly should be followed up with the third-party administrator's adjudication and edit procedures. It feeds our mitigation model in Table 3 by adding the experience back into the system. Incorporating the pattern of this fraud into the model prevents or minimizes similar occurrences, helps find ongoing schemes elsewhere with other parties, and reduces the time it takes to discover these schemes. Mitigation feeds detection by reducing in the future the amount of time it takes to make a fraud known.

As previously mentioned, the ACFE reports that the average life span of a fraud is 18 months. Dr. Healer had a good lead time of five years. Therefore, what was happening during the adjudication of the Medicaid claims for this state? How was Dr. Healer able to stay below the radar screen? Upon evaluation and review, the next step would be in establishing internal controls.

The next data analysis series will focus on developing a prevention data analysis model.

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