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Federal CFO: Actionable solutions

Analytics preventing fraud, waste, and abuse in benefits programs

In 2012, when a Department of Human Services caseworker in Klamath Falls, Oregon heard from a Supplemental Nutrition Assistance Program (SNAP) recipient that a local market Carniceria Mi Pueblo was making fraudulent sales to beneficiaries in return for cash payouts, it was a clear indication that something was amiss.

During the investigations of the Carniceria’s food stamps transactions that followed, state officials found more and more red flags. These small scale infractions ended by exposing a criminal ring that had been laundering large amounts of money — an estimated $20,000 each month. The fraud ring even had links to Mexican drug cartels. Two years later, police arrested 65 people in connection with this case.

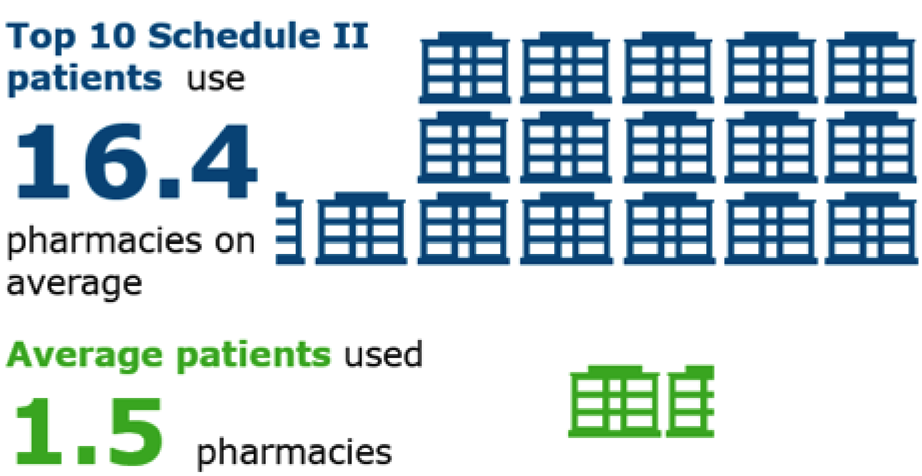
The time is now to take the next step and use analytics to allow me to do something practical.

The problem facing government compliance and enforcement organizations is that they have far more leads like Carniceria Mi Pueblo than they have the means to pursue. These leads require considerable investigation time and agencies do not have enough personnel to pursue all of them. Everyone responsible for program integrity, from the Chief Financial Officer (CFO) to the program administrators, can benefit from analytics to accelerate investigations, keep them focused on high return leads, and most importantly give them the information they need to help prevent fraud before it occurs. If investigators are already inundated with more leads than they can pursue, they don't need analytics to drown them with even more.

An evidence-based analytics approach is vital to preventing or reducing improper payments and making more effective use of limited resources. Deliberate use of analytics can increase the probability that an investigation will lead to a successful recovery or prosecution. Analytic insights can develop stronger compliance rules that can be used to frustrate fraudsters at the pre-payment level, or use creative techniques like soft notices to stop a scheme from continuing. In particular, there are at least six anti-fraud activities that can benefit from analytics, while avoiding the trap of creating more work for investigative teams already operating over capacity.

Analytics can help policy makers institute improved compliance procedures

The opioid epidemic has led to a rash of fraud and abuse involving Medicaid prescriptions. Deloitte Advisory's analysis of Schedule II prescription patterns (which includes opioids) showed two surprising facts: Patients receiving Schedule II prescriptions are more likely to pay in cash. Further, such patients used on average ten times as many pharmacies to fill their scripts as other patients.



Source: Deloitte Advisory analysis of prescription drug trends

Armed with this new knowledge of how some patients are drug shopping and using cash and multiple pharmacies in an attempt to hide their abuse, policy makers might consider tightening compliance procedures. Rather than expending valuable resources to investigate each case, states could limit the number of pharmacies that a Schedule II prescribed patient may use, and provide training to pharmacists for how to handle patients paying with cash. This approach could defeat the person trying to take advantage of the payor system and save taxpayers from the cost of investigation, litigation and rehabilitation.

Analytics drives improvements in continuous monitoring

The nature of fraud is dynamic. The implementation of new rules to address a vulnerability does not mean that the fraudster will stop trying to exploit the payor system. An adaptive system identifies new trends and patterns as they emerge, and uses that information to seamlessly update rules and models in its monitoring system. This approach is fundamental to a modern enterprise fraud management solution.

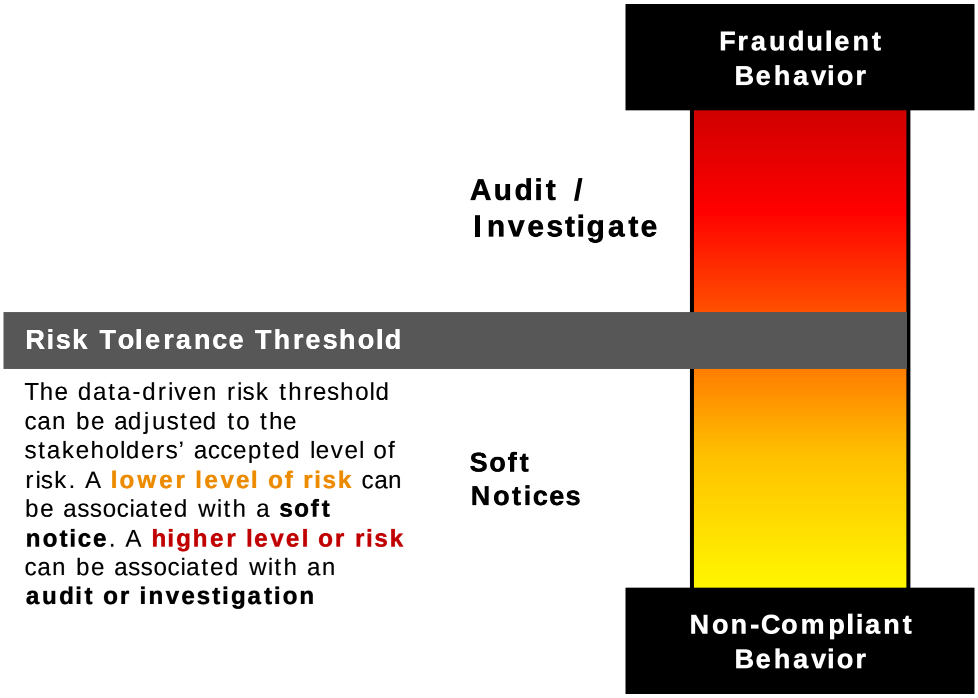
In the same way, some state Medicaid agencies are looking at billing and treatment patterns off-line to establish what normal provider behavior looks like. Using this baseline, states can identify abnormal claims (i.e., those deviating from normal behavior by a significant margin). Each time one of these abnormal claims turns out to have been improper, the sensitivity of the monitoring system for identifying false payments can be recalibrated. Through this machine learning approach, states can build systems with sufficient precision to stop payments before they occur … when they shouldn’t.

Evidence-based systems prioritize investigator and prosecutor activity

It would be nice if CFOs could dedicate unlimited resources to fraud prevention, but the reality is that those mitigating fraud risk will need to work smarter and faster. They will need to use a multitude of exploratory and predictive techniques, leveraging the full power of data analytics, to prioritize cases using risk-based criteria. It is important for enforcement agencies to delineate clearly what they will investigate and prosecute versus what they will seek to prevent. Driving out false positives through machine learning and setting up a risk tolerance threshold can direct investigators to spend time on the most likely cases and prosecutors at successful prosecutions.

Analytics powers soft notices to prevent fraud

Because investigating and prosecuting fraud and abuse after it occurs is time-consuming and expensive, nudging benefits recipients to obey the law in the first place can deliver a high return on investment. Analytics make possible soft notices, which can keep the fraudulent mind off balance. These notices typically inform potential fraudsters that they are triggering “red flags” and can motivate them to change their behavior.



One scheme used by fraudulent pharmacists is to incorrectly record a one-day supply for a patient when a multiple day supply should have been provided. The patient can then return to the pharmacy and fill their prescription, e.g., pain killers, more often than the prescription would normally allow. This scheme currently remains undetected without a pharmacy inventory audit. But analytics is helping to change that. For pharmacies that dispense abnormal quantities of one-day supplies, the payor could send soft notices asking them to reconcile the drug quantity in both the prescribed and filled prescription. This could have a chilling effect on this practice.

Evidence-based approaches focus fraud prevention training programs
Analytics can identify clear inconsistencies in the interpretation of benefits policies. For example, claims data can identify providers that consistently bill at the highest reimbursement codes for their service rendered, as opposed to the most appropriate one. These subtle patterns may be honest mistakes, or they could reflect someone testing the system to take advantage of it. Education and training programs aimed at claims administrators might obviate this practice where it is a mistake, and dissuade improper billing where it is intentional.

Analytics can support renegotiating benefits provider contracts
Let's look at the numbers. White House figures on the largest benefits programs show improper payments rose from $38 billion in 2005 to $137 billion in 2015, a 197 percent increase in inflation-adjusted dollars over 10 years.[1] A dismal trend on first glance; but, a deeper dive into this issue tells another story. Much of the apparent increase actually stems from better agency

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[1] ! PaymentAccuracy.gov, "Improper payment amounts (FYs 2004-2013)," https://paymentaccuracy.gov/tabular-view/improper_payments

reporting, but analytic techniques have also made pockets of fraud easier to detect.

So who foots the bill for these improper payments? If benefits providers are not “nudged” to reduce costs accordingly, we believe it is likely they will simply pass the cost along to consumers. Importantly, such cost transfers are not sustainable. Payors should use analytics to renegotiate capitated rates and direct the behavior of providers. Analytics can provide new ammunition for those renegotiations by giving a clearer picture of where improper and unnecessary costs are being passed along.

Analytics must be evidence-based and actionable
The activities laid out above show how vital analytics has become to fraud management when it is used to take action and generate a return on investment. While many CFOs have begun to realize the importance of implementing evidence-based approaches, too often analytics is still used to generate leads for which there is not sufficient bandwidth to pursue.

Prevention should be the priority. It is far more economical to stop a payment or dissuade fraudulent activity than it is to investigate, prosecute and recover. It’s clear that as part of a proactive prevention strategy, analytics can be used to generate better compliance procedures and change behavior. Through machine learning and the reduction of false positives, data can provide stronger continuous monitoring to stop fraud before payments are made. There will always be a need to investigate and prosecute select cases, particularly where the fraud is egregious. Given the limits on investigative and prosecutorial resources, analytics should be used to focus activity where it is most needed. Risk-based scoring approaches can filter leads and drive return on investment.

In the past, fraud was often folded into the costs of doing business. In today’s fiscal climate, this approach seems no longer sustainable. While analytics has been able to identify more leads than ever before, anti-fraud offices are plagued with too many false positive leads and too few resources to investigate them. It is no longer enough for analytics to tell me something interesting. The time is now to take the next step and use analytics to allow me to do something practical.

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