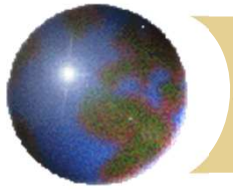


Auditor's Role

✚ Professional skepticism

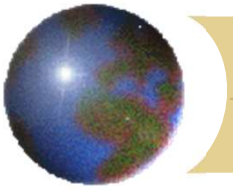
- ✚ “The auditor should plan and perform an audit with **professional skepticism**, recognizing that circumstances may exist that cause the financial statements to be materially misstated.” – **AU-C 200 paragraph 17**
- ✚ “The auditor should maintain professional skepticism throughout the audit, recognizing the possibility that a material misstatement due to fraud could exist, notwithstanding the auditor's past experience of the honesty and integrity of the entity's management and those charged with governance.” – **AU-C 240 paragraph 12**



Auditor's Role

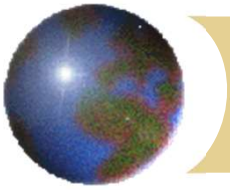
Obtaining audit evidence

-  The auditor should be ready to challenge management, especially on complex and subjective matters and matters that have required a degree of judgment to be exercised by management.
-  For example, if management refuses the auditor's request to obtain evidence from a third party. The auditor will have to consider how much trust can be placed on evidence obtained from management.



Auditor's Role

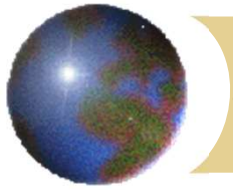
- ✚ AU-C 200 paragraph .A27 - ***The auditor neither assumes that management is dishonest nor assumes unquestioned honesty.***
- ✚ *(Professional Skepticism; Trust – but verify; in God we Trust, All others we Audit!)*



Auditor's Role

Examples of conflicting or missing evidence

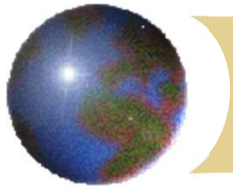
-  Missing documents
-  Documents that appear to have been altered
-  Unavailability of documents other than photocopied or electronically transmitted documents when documents in original form are expected to exist
-  Significant unexplained items on reconciliations
-  Unusual balance sheet changes, or changes in trends or important financial statement ratios or relationships; for example, receivables growing faster than revenues
-  Inconsistent, vague, or implausible responses from management or employees arising from inquiries or analytical procedures



Auditor's Role

✦ **Examples of conflicting or missing evidence**

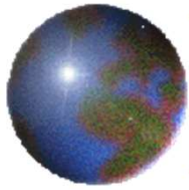
- ✦ Unusual discrepancies between the entity's records and confirmation replies
- ✦ Large numbers of credit entries and other adjustments were made to accounts receivable records
- ✦ Unexplained or inadequately explained differences between the accounts receivable subledger and the control account, or between the customer statements and the accounts receivable subledger
- ✦ Missing or nonexistent cancelled checks in circumstances in which cancelled checks are ordinarily returned to the entity with the bank statement
- ✦ Missing inventory or physical assets of significant magnitude



Auditor's Role

✚ **Examples of conflicting or missing evidence**

- ✚ Unavailable or missing electronic evidence, inconsistent with the entity's record retention practices or policies
- ✚ Fewer responses to confirmations than anticipated or a greater number of responses than anticipated
- ✚ Inability to produce evidence of key systems development and program change testing, and implementation activities for current-year system changes and deployments

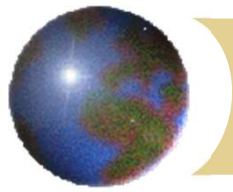


Demonstrating Professional Skepticism

When the Good Lord helps you
control that mouth but your facial
expressions still need prayer.

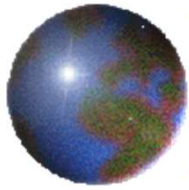
Me:





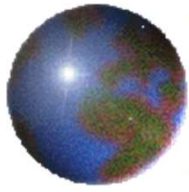
Auditor's Role is NOT

- ✦ **Auditor is not part of the Entity's operations**
- ✦ **Auditor is not responsible for auditing every dollar and finding fraud for the Entity**
- ✦ **Auditor does not make management decisions**
- ✦ **Your auditor is NOT part of your controls**
 - ✦ Do not rely on the auditor to catch errors, perform a final review, etc.
 - ✦ Impairs the auditor's **independence** if management is relying on the auditor to make decisions or play a role in the internal control system



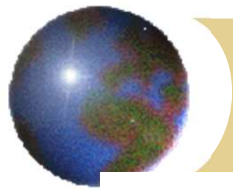
Timeless Advice from the CFO to the Auditor

- ✚ Look for and report on the notable performance measures, efficiencies, and revenue/resource outcomes.
- ✚ Re-examine materiality concerning the entity.
- ✚ Maintain a flexible audit schedule around the scope and mission of the entity, division, and department.
- ✚ In entities under new management, keep focused on improvements moving the entity forward, not on former management and their years of past errors.
- ✚ Let the new management have a honeymoon period, and provide constructive feedback rather than a “gotcha” attitude;
- ✚ Remember that the reality of an audit is not always grounded in a book of theory.



Writing Effective Responses to I.C. Findings

- ✚ **Acknowledge the issue clearly and factually**
- ✚ **Explain the root cause of any findings**
- ✚ **Describe corrective action taken or planned**
- ✚ **Identify responsible parties and timeline**
- ✚ **Commit to follow-up and monitoring**
- ✚ **Own the issue, avoid sounding defensive**

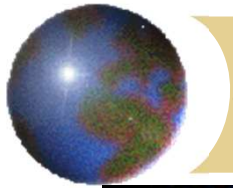


Internal Control Findings

Internal Control Deficiencies

Major Deficiencies

- *Internal control deficiency* refers to a shortcoming in a component or components and relevant principle(s) that reduces the likelihood of an entity achieving its objectives.
- An internal control deficiency or combination of deficiencies that severely reduces the likelihood that the entity can achieve its objectives is referred to as a *major deficiency*.



Internal Control Findings

COSO Internal Control - Integrated Framework

Internal control deficiency

A shortcoming in a component or components and relevant principle(s) that reduces the likelihood of an entity achieving its objectives.

Major deficiency

An internal control deficiency or combination of deficiencies that severely reduces the likelihood that an entity can achieve its objectives.

AU-C 265

Deficiency in internal control

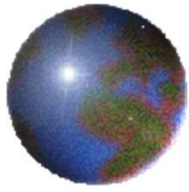
Exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance. Must communicate to governance in writing.

Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. Must communicate to governance in writing.



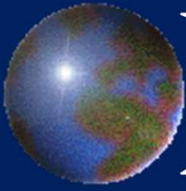
Writing Effective Responses to I.C. Findings

Example:

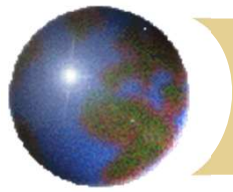
Finding: Lack of segregation of duties in disbursement process

Response:

- **Acknowledgment:** We recognize that having one staff member responsible for preparing, approving, and reconciling disbursements poses a risk.
- **Root Cause:** Limited staffing in the finance department led to overlapping duties.
- **Action:** We will restructure duties so that a second employee reviews and approves all disbursements by June 30, 2025.
- **Responsibility:** Finance Director will oversee implementation.

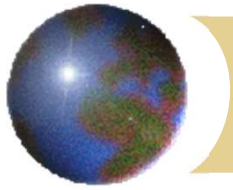


5. Self-Assessment



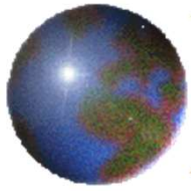
Self Assessment Toolkit

- ✪ **Use of COSO-based internal control questionnaire**
- ✪ **Departmental walkthroughs**
- ✪ **Checklist of key processes: cash, accounts receivable, accounts payable, grant tracking, procurement, payroll**
- ✪ **Where can something go wrong? Where can someone commit fraud, and it could go unnoticed?**
- ✪ **High risk areas – what kinds of situations would receive a lot of public scrutiny if it was to occur?**



Benefits of Internal Control

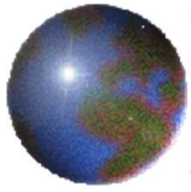
- ✚ Confidence regarding the achievement of objectives
- ✚ Feedback on how the business is functioning
- ✚ Reduces surprises
- ✚ Increased efficiency within functions and processes
- ✚ Provides a basis for decisions where highly subjective and substantial judgment is needed



Limitations of Internal Control

In considering limitations of internal control, two distinct concepts must be recognized.

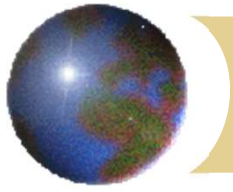
- ✚ Certain events or conditions are simply beyond management's control
- ✚ No system of internal control will always do what it is designed to do. The best that can be expected in any system of internal control is that reasonable assurance be obtained.



Limitations of Internal Control

These limitations may result from:

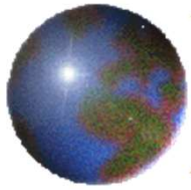
- ✚ A precondition to internal control
- ✚ Human judgment
- ✚ Human failures
- ✚ Management override (i.e., journal entries)
- ✚ External events



Larger vs Smaller Entities

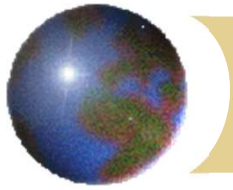
- ✦ The principles underlying the components of internal control are just as applicable for smaller entities as for larger ones
- ✦ Implementation approaches may differ
- ✦ Small entities may have a wider span of senior management control and interaction with personnel
- ✦ Larger entities may enjoy economies of scale, which often affect support functions





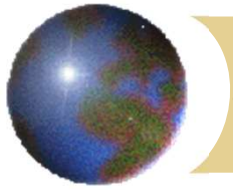
Policies & Procedures

- ✚ Update regularly!
 - ✚ At least annually (ex: Rotating Quarterly)
 - ✚ Review for relevance
 - ✚ Make sure actually being followed
 - ✚ Ensure other departments outside of accounting/finance are aware of their responsibilities and held accountable



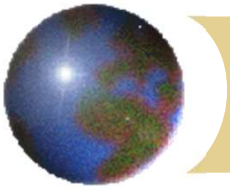
Risk Assessment

- ❖ Perform an annual internal risk assessment
 - ❖ Where can someone easily steal?
 - ❖ Does any person or position lack segregation of duties?
 - Admin. or super user access to various systems
 - Ability to override controls or bypass controls
 - Shared passwords
- ❖ Break it up throughout the year
 - ❖ Specific departments each quarter of the year



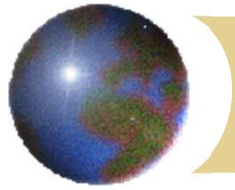
Internal Monitoring Program

- ✚ Set up recurring internal reviews (recurring)
- ✚ Involve leadership (finance, HR, IT, procurement)
- ✚ Document internal review findings and corrective actions
- ✚ Use findings to train staff and update procedures



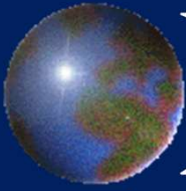
Identifying Red Flags

- ✚ Unusual variances in budget to actual reports
- ✚ Frequent journal entries without proper documentation, or JEs that seem to constantly move or reclass funds around, are hard to follow, or overly complicated
- ✚ Employees are reluctant to take vacations
- ✚ Resistance to sharing duties or information, hoarding records or duties
- ✚ Lack of timely reconciliations
- ✚ Over-reliance on manual processes

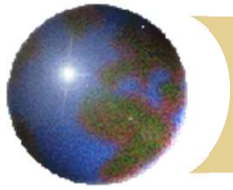


Steps Before the Audit

- ✦ Assign a “pre-audit readiness team.”
- ✦ Conduct spot checks
- ✦ Review prior year findings and management letter
- ✦ Test reconciliations and documentation trail
- ✦ Address missing or unclear policies
- ✦ Document changes during the year (new lease agreements, new debt). Keep copies in an audit folder all year as you gather support
- ✦ Ensure reconciliations tie to the trial balance BEFORE providing the TB to the auditor

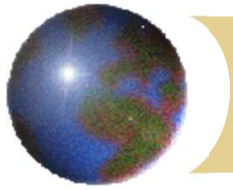


6. Real World Examples



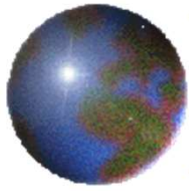
Common Examples of Healthcare Fraud

- ✦ Billing for Good/Services not Provided
- ✦ Kickbacks in Exchange for Referring Business
- ✦ Billing for Medically Unnecessary Tests
- ✦ Double Billing
- ✦ Charging Personal Expenses to Medicaid
- ✦ Inflating Bills for Services Provided
- ✦ Upcoding (billing for a more expensive service than what was performed).
- ✦ Falsifying a patient's medical diagnosis to justify unnecessary procedures
- ✦ Altering Medical Records



Common Examples of Healthcare Fraud

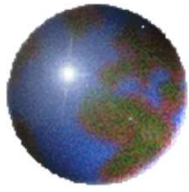
- ✚ Unbundling charges (billing each procedure separately to gain a larger payment)
- ✚ "Recruiting" healthy patients to join certain MCOs (with an incentive "payment")
- ✚ MCOs denial of or cutback on necessary services
- ✚ Consumer Deception Fraud (using someone else's medical credentials for medical care)
- ✚ Waiving co-pays or deductibles and over-billing the insurance carrier



Common Examples of Healthcare Fraud

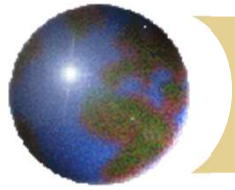
✦ Patient & Individual Fraud:

- ✦ Identity theft/Identity swapping
- ✦ Doctor shopping (visiting multiple doctors to obtain prescriptions for controlled substances)
- ✦ Forging or altering prescriptions
- ✦ Using transportation benefits for non-medical purposes



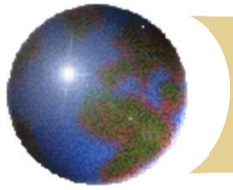
Example 1 – Entity Kickback Scheme

- ❖ **Background:** FL man, ineligible to own because of previous crimes, was silent partner in 5 DMEs, LOTS of false documentation
- ❖ **Scheme:** Over 12 years, DMEs billed \$61.5 million in false & fraudulent claims to Medicare for medically unnecessary DME. Were paid \$26.7 million. Involved bribes, kickbacks, & patient recruiters.
- ❖ **Lesson:** FBI and Healthcare Fraud Strike Force (through HHS-OIG). Perhaps better data analytics at CMS to catch earlier.



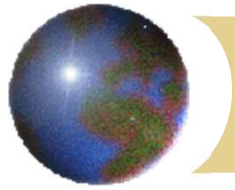
Example 2 – Credit Card Misuse

- ✱ **Background:** Audit revealed misuse of entity credit cards across 22 departments.
- ✱ **Scheme:** Purchases were manipulated to exceed spending limits (splitting payment in half).
- ✱ **Lesson:** Have clear policies for procurement and credit card usage, ensure that purchase card activity is reviewed by manager monthly



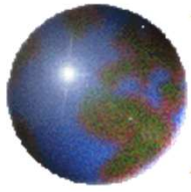
Example 3 – Embezzlement

- ✚ **Background:** Clerk-Treasurer embezzled nearly \$1M over 9 years
- ✚ **Scheme:** Misappropriated funds through unauthorized transactions and manipulated records. She was the only person reconciling accounts and handling the books.
- ✚ **Lesson:** Implement segregation of duties and independent reviews of financial information



Example 4 – Cash Payments

- **Background:** Clerk stole \$134k in payments by pocketing cash over several years. Critical in cash driven areas (food service, gift shops, etc.)
- **Scheme:** Clerk accepted payments, recorded transactions, and made deposits (i.e. no segregation of duties) and was able to cover up cash that was pocketed.
- **Lesson:** Implement segregation of duties and independent reviews of financial information

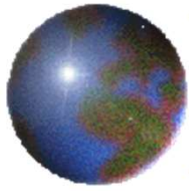


Example 5: Mississippi State Hospital Scrap Metal Fraud



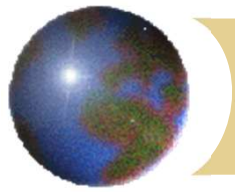
Photo: Billy Morehead – Mississippi State Hospital

Three former employees colluded to dispose of scrap metal and pocket the proceeds rather than submit to the hospital business office.



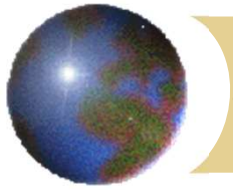
Example 6 – Small Entity-Issued Credit Cards

- **Background:** Small Town Administrator stole over \$50k using town-issued credit cards
- **Scheme:** She used town-issued credit cards and wrote checks to herself. She processed payroll, reconciled accounts, and approved her own expenses.
- **Lesson:** Implement segregation of duties and independent reviews of financial information



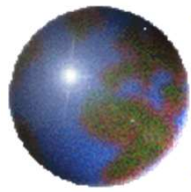
Example 7 – Fake vendors

- **Background:** Assistant Finance Services Manager embezzled \$5.2M
- **Scheme:** A fake vendor was created and disbursements were made to the vendor over a few years. There were weak controls, and the entity had a small municipal finance department.
- **Lesson:** Stronger controls, implement segregation of duties, include controls over authorized vendors



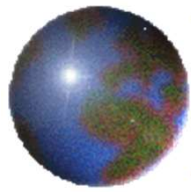
Example 8 – Audit Delays

- ❖ **Background:** In Mississippi, many municipalities and counties have not had fiscal year audits in several years (dates back 5 years)
- ❖ **Issue:** Staff turnover, implementation of new financial systems, shortage of auditors
- ❖ **Lesson:** Ensure proper change management and training during system implementations. Hire outside help if needed, do not wait for auditor to “clean it up,” secure audit firms earlier



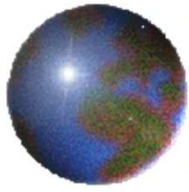
Example 8 – Upcoding & False Claims

- ✦ **Background:** Over \$600 million in false & fraudulent medical billing claims over several years by NY man defrauding insurance companies
- ✦ **Scheme:** His medical billing company (primarily for plastic and orthopedic surgeons) billed “upcoded” and different procedures; and, impersonated patients and patient’s relatives on appeals of denied claims (he received the claims and a fee and medical biller). \$336 million in restitution
- ✦ **Lesson:** Clinics should periodically monitor their service providers. FBI and Health Care Fraud Strike Force (HHS-OIG) coordinated.



Example 9 – Hospice Fraud & Money Laundering Scheme

- ❖ **Background:** Over \$16 million defrauded from Medicare through sham hospice companies laundering the proceeds of the fraud.
- ❖ **Scheme:** “Owners” billed Medicare through four sham hospice companies, for services not performed or that were not medically necessary. Created false leases, false bank accounts, misappropriated names of doctors and patients to bill Medicare. \$336 million in restitution
- ❖ **Lesson:** FBI and Health Care Fraud Strike Force (HHS-OIG) coordinated. Data analytics helped (two dead doctors were “billing” for services).



Example 10 – 2025 Healthcare Fraud Takedown

- ✦ **Background:** Over \$14.6 BILLION defrauded from Medicare & Medicaid through sham billing practices. LARGEST medical fraud case in history.
- ✦ **Schemes:**
 - ✦ Use of transnational criminal organizations (a network of foreign straw owners sent to the US) that stole beneficiaries' IDs & other confidential healthcare information & used AI to create fake recordings of beneficiaries consenting to receive certain products. \$12B
 - ✦ Fraudulent wound care – \$1.1B – amniotic wound allografts
 - ✦ Prescription opioid trafficking – over 15 million pills
 - ✦ Telemedicine & genetic testing fraud - \$1.17B
 - ✦ Other – Medicare, Medicaid, & Insurance – unnecessary tests & procedures provided with kickback & bribe schemes - \$1.84B
- ✦ **Who was involved:** FBI, Health Care Fraud Strike Force (HHS-IG), CMS, IRS & Defense Criminal Investigative Services, DOL, DEA, USPS IG, OPM IG, 12 States' AGs (Medicaid Fraud Units), 50 US Attorneys, coordinated.



2025 National Health Care Fraud Takedown

\$14.6 B | **INTENDED FRAUD
LOSS CHARGED**

15.6 M

**PILLS OF CONTROLLED
SUBSTANCES ILLEGALLY
DISTRIBUTED**



\$245 M

**CASH AND OTHER
ASSETS SEIZED**



**CRIMINAL
ENFORCEMENT**

324

**DEFENDANTS
CHARGED**

96

**MEDICAL
PROFESSIONALS
CHARGED**

**CIVIL
ENFORCEMENT**

\$48.6 M

**SETTLEMENTS
AND CHARGES**

126

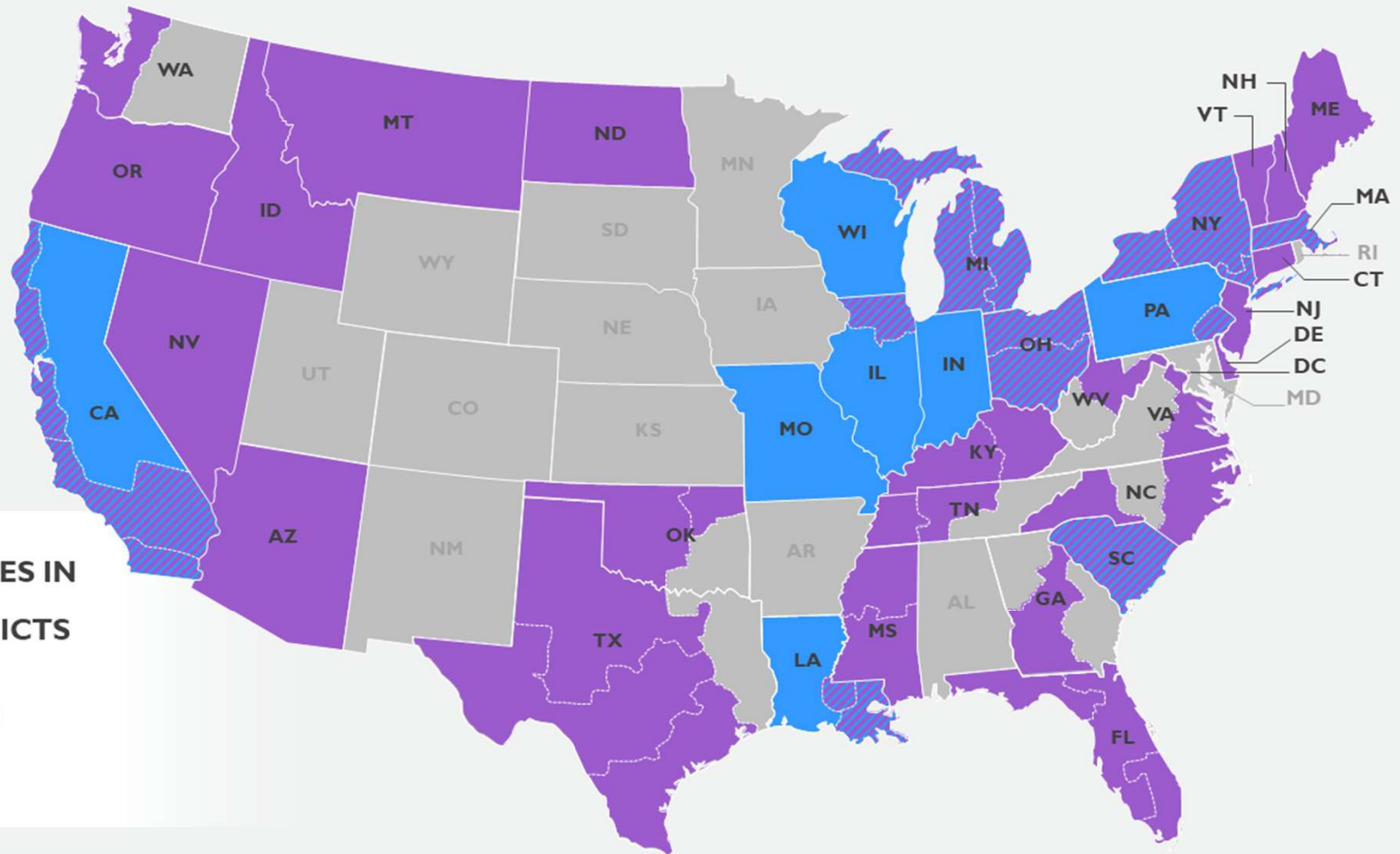
DEFENDANTS

50

FEDERAL DISTRICTS



2025 National Health Care Fraud Takedown



189 FEDERAL CASES IN

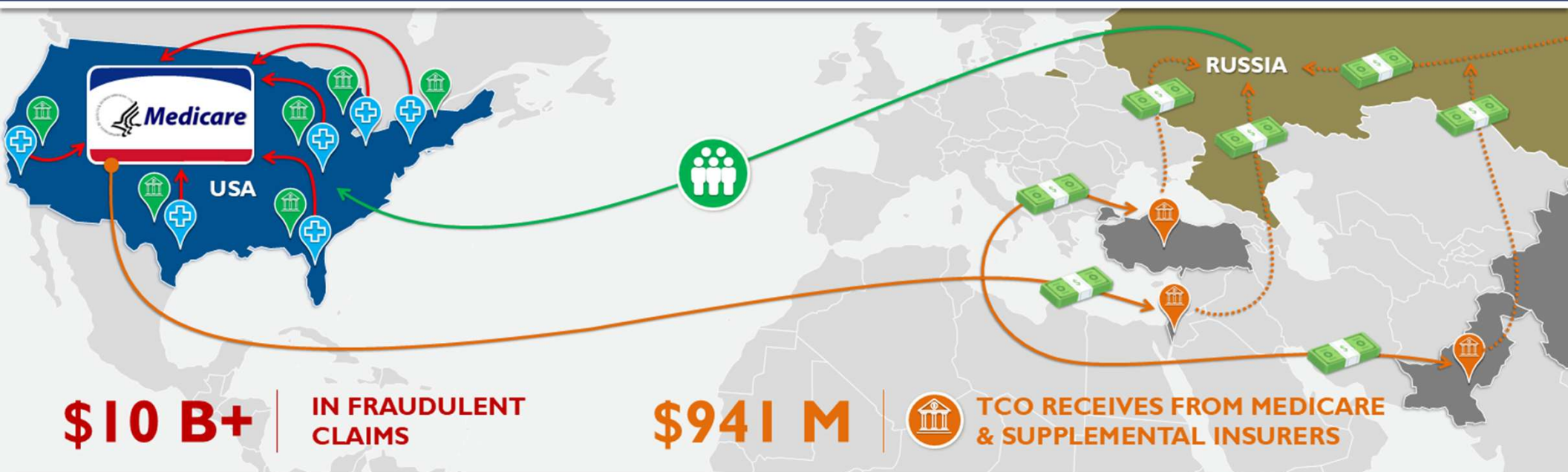
50 FEDERAL DISTRICTS

91 STATE CASES IN

12 STATES



Operation Gold Rush – The Scheme



1. Transnational Criminal Organization buys over 30 medical supply companies across the United States that were already enrolled in Medicare



2. TCO sends individuals from Russia and Estonia to the United States to act as straw owners for these companies



3. TCO sends straw owners to US banks with false documentation to open bank accounts in names of these companies



4. TCO transmits **over \$10 billion** in fraudulent claims to Medicare for urinary catheters and other medical equipment that doctors never ordered, patients never requested, and patients never received



5. TCO receives **\$941 million** from Medicare and Medicare Supplemental Insurers and then launders the money to accounts overseas



Operation Gold Rush – Enforcement

\$27.7 M

SEIZED IN
FRAUD PROCEEDS

19 DEFENDANTS
CHARGED

5 DISTRICTS
CHARGED



Central District of California
Middle District of Florida
Northern District of Illinois
District of New Jersey
Eastern District of New York

4 DEFENDANTS
ARRESTED
IN ESTONIA



8 DEFENDANTS ARRESTED
ATTEMPTING TO FLEE
THE UNITED STATES



LAX
JFK
EWR
TPA



LOCATIONS OF MEDICAL SUPPLY COMPANIES

Burbank, CA
Bethel, CT
Fort Lauderdale, FL
Bowling Green, KY
Tannersville, PA
Brooklyn, NY
Staten Island, NY
El Paso, TX

Fort Worth, TX
Hutchins, TX
San Antonio, TX
Tomball, TX
Alexandria, VA
Garland, TX
Alexandria, KY
Coral Springs, FL

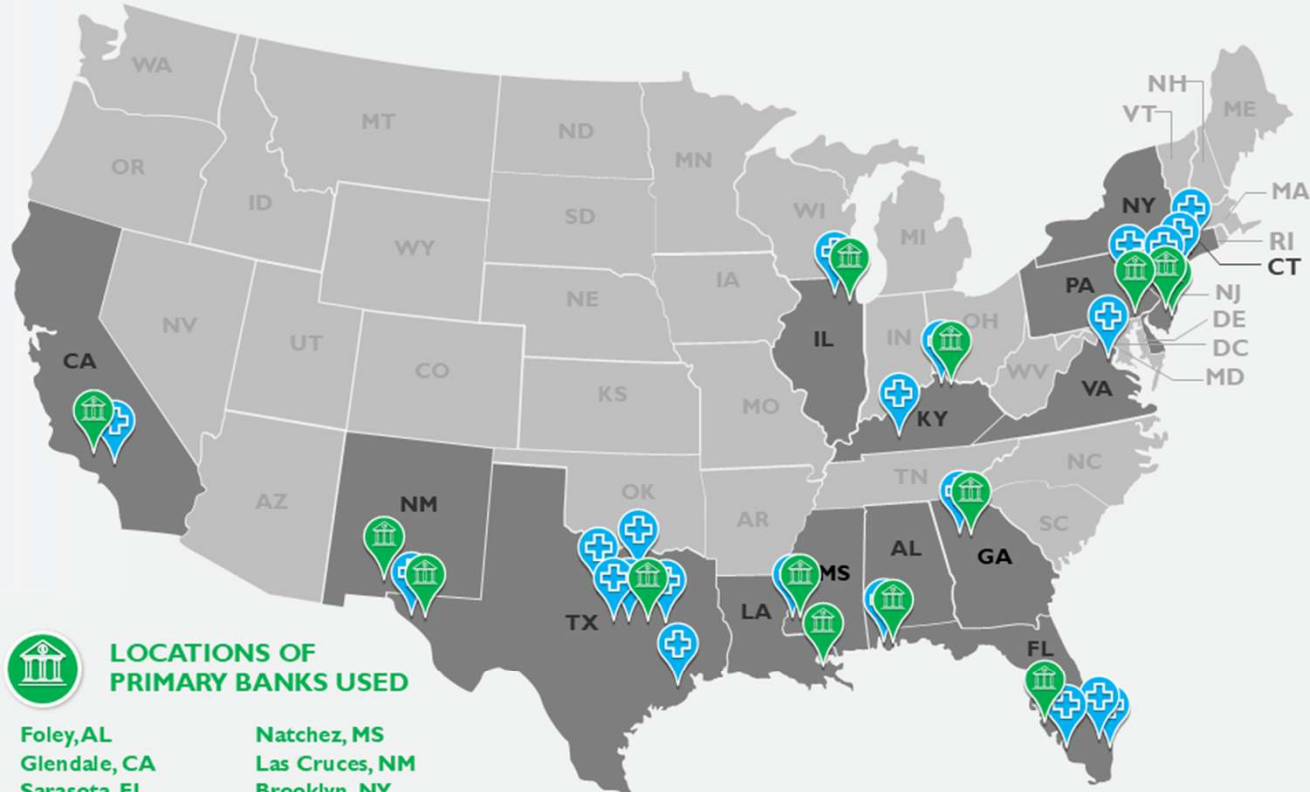
Fairhope, AL
Grand Prairie, TX
Kennesaw, GA
Naples, FL
Natchez, MS
Roselle, IL

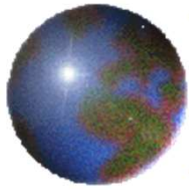


LOCATIONS OF PRIMARY BANKS USED

Foley, AL
Glendale, CA
Sarasota, FL
Kennesaw, GA
Oak Brook, IL
Alexandria, KY
New Orleans, LA

Natchez, MS
Las Cruces, NM
Brooklyn, NY
New York, NY
Malvern, PA
El Paso, TX
Garland, TX





Mississippi Delta & Delta State University

United States District Court

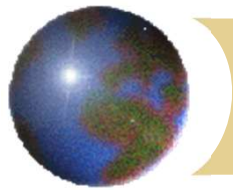
SUBPOENA TO TESTIFY BEFORE GRAND JURY

Billy Morehead

Delta State University
1003 West Sunflower Road
Cleveland, MS 38733

YOU ARE ALSO COMMANDED to bring with you the following document(s) or object(s):*

Any and all ORIGINAL documents relating to Don Knight, Knight Line Products, Gas Gas, Inc., TNC, Inc. and Knight Sports Center.

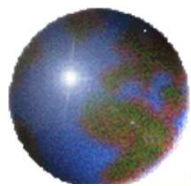


The Anatomy of a Fraud



THE Anatomy OF A Fraud

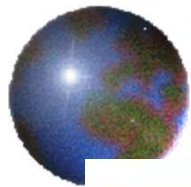
By Billy Morehead and Jeffrey Hughes



Controls Absent at LCFRB

- 1 Establish responsibility.**
(All tasks were assigned to Jeff.)
- 2 Segregate duties.**
(Doing all tasks gave Jeff the opportunity to steal.)
- 3 Restrict access.**
(Jeff was able to authorize, record, and take custody of assets.)
- 4 Document procedures.**
(Jeff created fraudulent documentation when needed.)
- 5 Independent verification of work by others.**
(No one else verified Jeff's work.)





IC Helpful Hints for Small Organizations

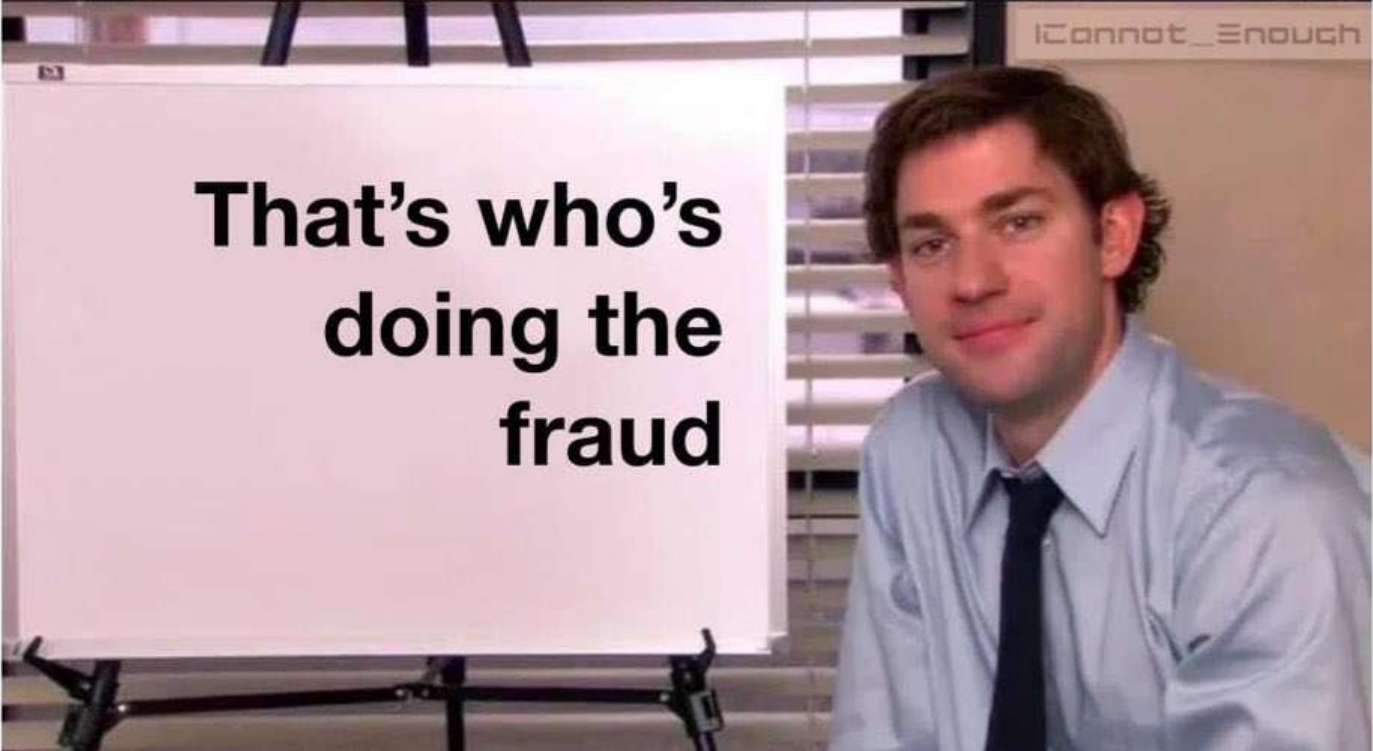
HELPFUL HINTS FOR SMALLER ORGANIZATIONS

- Every organization is vulnerable to fraud.
- Good internal controls provide an effective defense.
- Management is responsible for implementing, monitoring, reviewing, and ensuring employees and volunteers are trained in organizational internal controls.
- Good organizational policies and procedures, including those involving financial operations, are necessary.
- If you are unsure how to begin, do not be afraid to ask for help. AGA, AICPA, ACFE, and other organizations all provide training in internal controls implementation and fraud prevention and detection.
- The **AGA Fraud Prevention Toolkit** is available online at <https://www.agacgfm.org/Resources/intergov/FraudPrevention.aspx>
- Codes of Ethics are important.





**When you're
finding fraud and
somebody yells
"Stop!"**



**That's who's
doing the
fraud**

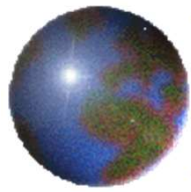


I Hope You Dance!



Photo: Park Neff
Venice, Italy, 2015

<https://www.youtube.com/watch?v=Mwn7cEb5ub4>



I Hope YOU Dance!



Questions?

Billy Morehead, Ph.D., CGFM, CPA, CPM
Professor of Accountancy
Mississippi College
P. O. Box 4014
Clinton, MS 39058
Phone: 601-925-7742
Email: morehead@mc.edu

Photo: Billy Morehead – Mississippi Delta