

Health Care Fraud by Public Hospitals as Corporate White-Collar Crime: A Convenience Perspective

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Abstract

In the United States, more than ten percent of all annual health care fraud recoveries that amount to several hundred million dollars annually come from hospital fraud. Healthcare fraud is a pervasive and significant form of fraud perpetrated against federal and state governments. Fraud by public hospitals is white-collar crime to benefit the organization, which is labelled corporate crime or organizational offending. This research applies the theory of convenience to explain health care fraud by public hospitals. As suggested by convenience theory, we find financial motives for illegal gain, organizational opportunity to commit and conceal crime, as well as personal willingness for deviant behavior. A case study of a public hospital in Norway is presented, where a computer system for reimbursement was manipulated.

Keywords: Health care fraud, public hospitals, computer system, convenience theory, case study.

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Introduction

Healthcare fraud is a pervasive and significant form of fraud perpetrated against federal and state governments. Public hospitals engage in fraud as they want to add funding to their budgets without providing the health care services expected from the funds. Fraud by public hospitals is white-collar crime to benefit the organization, which is often labelled corporate crime as opposed to occupational crime for personal benefit. Corporate crime,

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sometimes called organizational offending, is resulting from offenses by collectivities or aggregates of discrete individuals (Reed and Yeager, 1996). If a corporate official violates the law in acting for the corporation, we also define it as corporate crime or organizational offending (Holtfreter, 2015). Corporate crime is often a structural problem where the enterprise is to benefit.

Antitrust violations, securities offenses, manipulation of financial figures for tax evasion, bribery to obtain contracts, false loan applications to obtain credit in banks, money laundering in tax havens, and health care fraud are typical examples of corporate white-collar crime. Health care fraud by public hospitals represents unjustified government subsidies. The organizational anchoring of crime is evident in corporate offenses as crime takes place within the business and to the benefit of business (Bradshaw, 2015). While occupational crime is often hidden by the individual to enrich himself by abusing corporate resources (Hansen, 2009); corporate crime is often hidden by a group of individuals in organizational routines to improve business conditions. In both cases, crime is committed by virtue of position and trust in the organization, which prevents monitoring, control, and accountability. Corporate white-collar offending represents violations of integrity as well as failure to comply with moral standards, as in the example of corruption managed by top executives at Siemens in Germany (Eberl et al., 2015).

In this article, we apply the theory of convenience to a case of a public hospital in Norway that committed health care fraud. The theory of convenience suggests that white-collar crime is a convenient option if there is a strong economic motive, an attractive organizational opportunity, and a personal willingness for deviant behavior (Gottschalk, 2017). The case of a public hospital is described based on a fraud examination conducted by the global accounting and auditing firm PwC (2018). This research is important, as it illustrates that abuse of government funds in a fraudulent scheme can be an attractive option also for enterprises that are owned by the government.

Convenience Theory

Researchers have developed a number of explanations for the occurrence of fraud and corruption among the elite in society. Sutherland (1939) started out by differential association theory, where white-collar crime is explained by learning from others in such a way that offenders associate with other offenders and at the same time distance themselves from those who are skeptical of their behavior. As listed in Table 1, Sutherland's differential

association theory can be classified into the behavioral dimension of convenience theory.

Convenience is a term introduced to represent the choice by white-collar criminals. Convenience in white-collar crime relates to savings in time and effort, as well as avoidance of suffering and pain, by privileged and trusted individuals in reaching their goals, exploring and exploiting possibilities and options, avoiding collapse and bankruptcy, and in illegally benefiting individuals and organizations. Convenience is a relative concept where offenders have the choice between legal and illegal activities.

CONVENIENCE THEORY	IMPLICATION
General Perspectives Marketing theory (Farquhar and Rowley, 2009) Comfort theory (Carrington and Catasus, 2007) Convenience orientation (Mai and Olsen, 2016)	Preference Savings in time and effort Relief and ease Less effort needed the better
Economical Dimension Theory of profit-driven crime (Naylor, 2003) Theory of goal orientation (Jonnergård et al., 2010) Theory of social concern (Agnew, 2014) Theory of hierarchical needs (Maslow, 1943) Theory of greed (Goldstraw-White, 2012) Strain theory (Langton and Piquero, 2007) Fear of falling theory (Piquero, 2012) American dream theory (Schoepfer and Piquero, 2006) Theory of crime forces (Leonard and Weber, 1970) Narcissism theory (Chatterjee and Pollock, 2017) Exchange theory (Huang and Knight, 2017) Equity theory (Leigh et al., 2010)	Motive Desire for more gain Business ends justify means Desire to help others Climbing the pyramid Desire for more prosperity Removal of strain Prevention of disaster Money is success Usual way of doing business Need for acclaim Mutual benefits Reestablish equality
Organizational Dimension Institutional theory (Rodriguez et al., 2005)	Opportunity External legitimacy

<p>Entrepreneurship theory (Ramoglou and Tsang, 2016)</p> <p>Opportunity theory (Benson and Simpson, 2015)</p> <p>Agency theory (Eisenhardt, 1985)</p> <p>Routine activity theory (Cohen and Felson, 1979)</p> <p>Theory of social disorganization (Hoffmann, 2002)</p> <p>Theory of cryptology (Ferraro et al., 2015)</p> <p>Resource theory (Adler and Kwon, 2002)</p> <p>Too big to fail theory (Pontell et al., 2014)</p> <p>Attribution theory (Eberly et al., 2011)</p> <p>Crime signal detection theory (Karim and Siegel, 1998)</p> <p>Sensemaking theory (Weick, 1995)</p> <p>Theory of whistleblowing (Keil et al., 2010)</p> <p>Ethical climate theory (Victor and Cullen, 1988)</p> <p>Leader humor theory (Yam et al., 2018)</p> <p>Theory of power inequality (Patel and Cooper, 2014)</p>	<p>Opportunity existence</p> <p>Opportunity at work</p> <p>Principal cannot control agent</p> <p>Specialized access</p> <p>Inability to control members</p> <p>Language interprets reality</p> <p>Access to resources</p> <p>Too powerful to jail</p> <p>Blame game</p> <p>Interference and noise</p> <p>Meaning based on experience</p> <p>Costs exceed benefits</p> <p>Instrumental fraud</p> <p>Acceptability of deviance</p> <p>Family member influence</p>
<p>Behavioral Dimension</p> <p>Nudge theory (Benartzi et al., 2017)</p> <p>Identity theory (Obodaru, 2017)</p> <p>Self-regulation theory (Mawritz et al., 2017)</p> <p>Labeling theory (Bernburg et al., 2006)</p> <p>Differential association theory (Sutherland, 1983)</p> <p>Rational choice theory (Pratt and Cullen, 2005)</p> <p>Self-control theory (Gottfredson and Hirschi, 1990)</p> <p>Deterrence theory (Comey, 2009)</p> <p>Obedience theory (Baird and Zelin, 2009)</p> <p>Negative life events theory (Engdahl, 2015)</p> <p>Slippery slope theory (Welsh et al., 2014)</p> <p>Neutralization theory (Sykes and Matza, 1957)</p>	<p>Willingness</p> <p>Behavioral reinforcement</p> <p>Professional identity</p> <p>Undesirable impulses</p> <p>Reputation adaption</p> <p>Learning from others</p> <p>Benefits exceed costs</p> <p>Lack of self-control</p> <p>No risk of detection</p> <p>Action according to authority</p> <p>Victim of crime</p> <p>Violation of law not noticed</p> <p>Denial of wrongdoing</p> <p>Acceptable for the elite</p> <p>Work-related stress</p>

Social conflict theory (Petrocelli et al., 2003)	Personal entity
Self-determination theory (Olafsen et al., 2017)	Social ties dwindle
Theory of narcissistic identification (Galvin et al., 2015)	
Age-graded theory (Laub and Sampson, 1993)	

Table 1 Supporting theories for the theory of convenience

Table 1 classifies a number of theories into three categories that are labeled economical, organizational, and behavioral dimension respectively. In the economical dimension, theories emphasize motives for white-collar crime, which can be both possibilities and threats. In the organizational dimension, theories emphasize opportunities for white-collar crime, which include both access to resources to commit crime and opportunity to conceal crime. In the behavioral dimension, theories emphasize willingness based on slippery slopes, lack of self-control, application of neutralization techniques and other enablers for willingness.

Table 1 starts by listing general perspectives on which convenience theory is based. In marketing, convenience stores have existed for a long time (Farquhar and Rowley, 2009). Conveniently oriented persons want to avoid discomfort (Carrington and Catusus, 2007).

Convenience orientation is conceptualized as the value that individuals place on actions with inherent characteristics of saving time and effort as well as avoiding pain, suffering, and uncertainty (Mai and Olsen, 2016).

Many of the sub-theories included in the theory of convenience are based on analogies. For example, agency theory is based on an analogy concerned with the relationship between principal and agent as a nexus of contracts, while resource theory is based on an analogy of the organization as a bundle of productive resources. As argued by Ketokivi et al. (2017), analogies provide a link between two domains of meaning: the source and the target domain.

In the following, all sub-theories in Table 1 are described. Figure 1 illustrates the three dimensions in convenience theory.

Similar to the fraud triangle, the convenience triangle emphasizes pressures and incentives, opportunities and prospects, and attitudes and rationalizations (Steinmeier, 2016). The theory of convenience expands the fraud triangle in two directions. First, the term convenience is introduced to emphasize the decision-making process among alternatives, where an illegal pathway in terms of fraud is only one out of several options for a potential

offender. Second, the term opportunity is linked to an organizational context where a potential offender has legitimate access and can abuse position and trust to commit fraud.

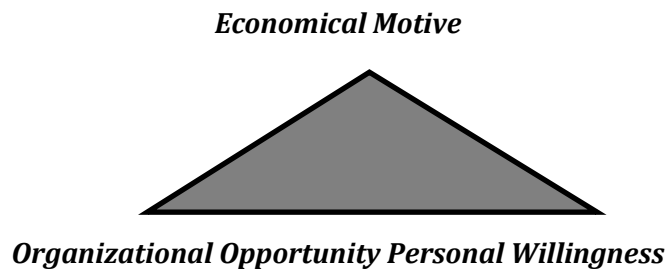


Figure 1 The Convenience Triangle in Fraud and Corruption.

The theory of convenience is a crime-as-choice theory where offenders have the option to choose legitimate rather than illegitimate paths to solve problems and gain from possibilities. Grabosky and Shover (2010) discuss how crime as a choice can be made less attractive compared to alternative choices. They suggest that three target areas for policy initiatives stand out: (1) reducing the supply of lure, (2) increasing prevailing estimates of the credibility of external oversight, and (3) increasing the use of effective systems of internal oversight and self-restraint. In convenience terminology, all of these initiatives can be found in the organizational dimension: (1) less attractive opportunities for illegal gain, (2) increased risk of detection from outside the organization, and (3) increased risk of detection from inside the organization.

Hospital Case Study

Vestre Viken is a public hospital located in the city of Drammen outside the capital Oslo in Norway. The department of clinical pathology has 55 employees, among them 16 physicians, 35 bioengineers, and 4 clerks. The reimbursement arrangement for pathology is regulated by type and magnitude of examination. The department used the computer system Sympathy for handling of information reimbursement for medical and laboratory tests. Each sample is received with a requisition for testing. On April 25, 2017, a government agency reported Vestre Viken to the police for having requested and received unjustified reimbursement of expenses for

policlinic health care. The illegal requests came from the department of clinical pathology and were linked to the use of various tariff codes for preparation and examination of medical samples.

On October 6, 2017, PwC was hired to conduct an independent fraud examination at Vestre Viken with the following mandate:

The investigation must focus on the extent to which rules and regulations were not followed, including:

- A. The extent of wrong rate codes and how it was done
- B. Who has been involved and in what ways
- C. Other relevant aspects related to wrong rate coding.

For time-consuming examinations of tissue samples, the regulation allows for additional reimbursement. The refund is not given for fabrication of tissue samples, but for the specified work done under the assumption that certain time requirements are met, depending on the extent and type of testing. Reimbursement will not be granted if the specified medical work takes less than half an hour. Most examinations take much less time. The code is labelled 705R. Another code is 705L that allows for additional reimbursement in cases of emergency, where laboratory results are presented before surgery is completed. Both codes 705R and 705L were to be entered in to Sympathy. However, at Vestre Viken the computer program Sympathy had been modified to add 705R and 705L automatically given certain criteria.

Fraud examiners from PwC (2018) found that this digitalization of reimbursement had caused fraud of more than 8 million Norwegian kroner (about one million US dollars) in recent years. Their estimate of fraud magnitude was based on a comparison with similar departments in similar hospitals.

In our perspective of convenience theory, the economical motive might be derived from the pressure for efficiency in health care. There were ambitious goals for each department within limited financial resources. There was anxiety whether or not goals would be met, and the potential consequences of failure. The head of department spent some of the illegal funding on key employees who could then attend medical conferences all over the world. In that way, the department head hoped to be able to keep key personnel happy. Otherwise, he was afraid they would leave his department and the hospital (Nordahl et al., 2018).

The organizational opportunity can be found in the legitimate access to the computer system Sympathy that was not used by other departments in the

hospital. To add a software statement linking certain activities to an automatic 705R or 705L reimbursement request was a convenient way of committing and concealing financial crime (Storvik, 2018). Furthermore, the department head was hired in 1993 at the age of 37 years old, and he built the department and ran it for 25 years until the misconduct was discovered and reported to the police. The department head ran the department under full control by a few of his followers. In an interview, it was said that “he ran the department as his own shop” (Nordahl et al., 2018).

The personal willingness can be found in neutralization techniques, where preprogrammed reimbursement in Sympathy caused no harm or no victim. Rather, the offense eased everyday life in the department. Manual registration of 705R and 705L was time consuming, so the digitalization and automation had reduced stress for busy personnel in the department (Solberg, 2017). The department was able to do a thorough, professional job in all its clinical pathology thanks to the fraud that created a necessary financial foundation.

As part of the mandate of the investigation, PwC (2018) also considered the extent to which Vestre Viken had arranged its reviews so that they could both prevent and reveal the type of errors identified, including what organizational measures the hospital had established. Fraud examiners did not conduct a full inquiry into Vestre Viken’s internal control system, but looked at how some issues had been dealt with internally, and how organizational conditions may have worked. Specifically, this applied to handling of similar misconduct cases, the ability to capture whistle blowing concerning wrongdoings, and how such alerts have been handled. Fraud examiners found that the hospital had no independent internal control function.

For outpatient reimbursement requirements, there was no rule engine in the Sympathy software that could capture high-cost usage. Such a rule engine would have implied that most of the submissions from the department of clinical pathology could cause a red flag for manual follow-up, as health clinics of the hospital sector are divided into specialized areas. Each outpatient clinic could thus have naturally high incidences of individual tariffs in their submission.

For a controller in the government agency supposed to check money flows to hospitals, it was impossible to assess whether, for example, the number of laboratory was correct and medically justified. Laboratory rates are intended

for specialists in different fields within medicine, while controllers have financial rather than medical qualifications (PwC, 2008).

Discussion

In 2014, the Department of Justice in the United States obtained \$2.3 billion in health care fraud recoveries. More than 10 percent of that amount – \$333 million – came from hospitals.

According to Thomas (2015), the U.S. government is becoming increasingly sophisticated in the manner in which it utilizes data to identify abnormal billing patterns, identify trends, and root out health care fraud. Nevertheless, new cases emerge all the time. For example, King's Medical Center billed Medicare and Medicaid for numerous unnecessary cardiac stents and cardiac catheterization. In addition, physicians performing these procedures falsified medical records similar to the fraud at Vestre Viken in Norway.

The reimbursement system implemented in public hospitals was part of new public management in many countries. Public hospitals became more independent of the governments, but at the same time their performance was monitored by cost-benefit inquiries. New public management implies a greater emphasis on performance via quantitative performance indicators. Measurement of outputs from hospitals became the funding scheme (Simonet, 2013). As described in the case study, the head of the clinical pathology department was afraid of not reaching performance goals, and was afraid of losing key employees that would make it even harder to reach performance goals for his department.

Conclusion

As illustrated by a case study in this article, all three dimensions of convenience theory can be found. The financial motive was to ease financial strains and reward key personnel. The organizational opportunity was legitimate access to and subsequent abuse of a computer system. The personal willingness was caused by professional integrity at the expense of breaking reimbursement rules. While new control mechanisms are needed to prevent future abuse of funding in public hospitals, there should also be room for critical reflection regarding negative sides of new public management.

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