

# How Auditees Experience Data Analytics Driven Audits: Constructing Audit Expectations Through the Idealized Professional

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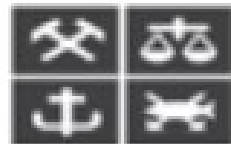
# How to Study Use of Audit Data Analytics?

- Generally, they are not used much and experience is limited. Limits familiarity and cognitive fit that are key to auditor appropriation.
- Alternative audit environments?
  - Audit applications extend beyond traditional financial statement audits and is embraced by many organizational agents (Suddaby et al. 2007; Power 2021).
  - This has been linked to explosive growth in the use of audit as a control mechanism in the emerging “Audit Society” (Power 1997; 2021).
- Centers for Medicare and Medicaid Services (CMS) considered high risk of fraud and invested in advanced data analytics that guide all audits and are conducted by contract auditors.

# A Success Model!

- We were attracted to the CMS models by their purported success and complex development.
- Data analytics were developed with the aid of leading consultants such as IBM and Northrop Grumman.
- Reported ROI to Congress was 3.3 (2012), 5.0 (2013), 10.0 (2014), 11.5 (2015) based on *actual and projected fraud collections*.
- Our initial small sample of auditees told a very different story. Fines that were almost always reversed and strife for no reason.
- However, data from CMS showed us that the *only actual* frauds realized ROI of .51, .57, .88, and 1.08 for the same four years.

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# Revisiting the Effect of Structured Audit Techniques

- Technology enabled tools can be used as an accounting technology to monitor employee performance, including coercing lower level auditors actions through the firm (Dowling & Leech 2014), potentially without improving audit quality (Boland et al. 2019; Dowling et al. 2018).
- While these centralized technologies may disseminate centralized expertise and structured tasks for lower level decision makers (Boland et al. 2019; Dowling & Leech 2014), these actions also encourage compliance with these tools and thus reduce lower level employees ability to exercise professional judgment.
- For example, in response to SOX organizations reacted defensively by increasing processes embracing formal “box-checking exercise” (Power 2021).

# Audit Socialization

- Most audit research looks at audit through the lens of practitioners in public accounting (Daoust & Malsch 2019; 2020).
- The conventional argument is that public accounting practitioners provide higher quality service, regardless of the context, owing to their procedural and methodological expertise alongside ingrained characteristics of the profession (Simnett et al. 2009).
- The performance of audits by nontraditional accounting practitioners may result in incorporating individuals of varying ethical standards to perform auditing services (Suddaby and Greenwood 2001).
- Traditional public accountants are more committed to the ethics of their profession than those in nontraditional fields (Suddaby et al. 2009).
- This may be attributable to public accounting firms employing socialization processes to emphasize professional norms and values more than other organizations (Suddaby et al. 2009).
- Public accountants are socialized to portray a specific image and engage in appropriate behaviors to demonstrate their adherence to the norms of the firm and standards of the auditing profession (Anderson-Gough et al. 2000;2001).

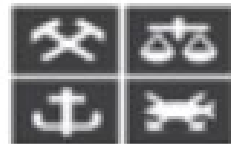
# Analyzing Auditees' Perspectives on Data Analytic Driven Audits

- One way to understand audits is to examine the experiences of the individuals in organizations subject to audit—auditees. In studying auditors in the field, it would seem difficult to ignore auditees, yet we know little about what auditees do when they have auditors on site (Daoust & Malsch 2020; Guenin-Paracini et al. 2015).
- Research suggests auditees expect public accountants to act in common ways, along with having expectations about the practice of the financial statement audit itself. For example, auditees expect auditors to be polite and responsive and to meet client deadlines by managing their time and prioritizing the client (Anderson-Gough et al. 2000).
- Do structured audit techniques based on data analytics transform this relationship?

# Research Method

- We adopted an inductive field study approach for the study. The use of inductive qualitative methods is preferred in examining nascent and unexplored phenomena (Glaser and Strauss 1967; Sutton et al. 2011; Power and Gendron 2015).
- Context is CMS audits that are required to be data analytic driven under U.S. Small Business Jobs Act of 2010. This is similar to how we would expect widespread data analytic use in public accounting to take hold—mandatory use.
- The audit is conducted by contractors known as ZPICs conducting what is commonly recognized as an audit of healthcare claims.

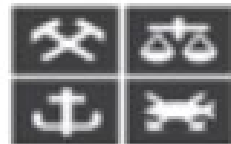
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# Data Collection

- Archival and press documents from public sources available through the CMS website and various practitioner websites.
- Archival documents from non-public sources through Freedom of Information Act Requests (e.g. ZPIC policies and procedures, compensation contracts, data analytic model information) and participants' communications (e.g. emails with attorneys, associated court documents).
- Interviews with 36 individuals lasted from 31 to 104 minutes (48 minutes on average).
  - 17 Operational Leads
  - 19 Executives
- Consistent with our interpretivist approach, we adapted our interview protocol along interviewees' responses to include themes of interest.

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# Data Analysis

- During the transcription and coding process we could see that participants discussion centered on certain themes.
  - Auditors' collection of evidence and documentation.
  - Communication with auditees and reporting findings.
  - Auditors' background and credentials.
  - Auditors' use of technology.
  - Societal impacts of the work performed by the auditors.
- Within these themes, the focus appeared to be on the professionalism of the auditors.
  - Unique set of knowledge and expertise.
  - Professionals hold a credential certifying their expertise.
  - Knowledge & expertise allow professional to make judgments that cannot be preprogrammed and apply rules that cannot be entirely codified.
  - Professions serve and support the public interest and do not engage in self-interested behavior.

# Auditee Experiences of Healthcare Fraud Audits

- Auditees speak about their healthcare fraud audit experiences in reference to their expectations of financial statement auditors (positive terms for financial statement auditors).
  - ...[financial statement auditors] they're very client oriented. They come, in they consult with me, tell me what they think, tell me where I can improve it ... from an accounting standpoint we're sparkling clean because we take care of suggestions and improve our operations. They do an outstanding job. (Exec14)
- Less positive about healthcare auditors.
  - The most challenging part about it was not being able to do anything about it. You can't talk to them [healthcare fraud auditors]. They use addresses that you can't fax things to, they don't put their phone numbers on any of their letters, documentation or whatever. Basically they're like a cockroach, you know, they're stuck in the darkness here, and you don't notice them until they're nibbling on your food, then they scurry back into the darkness again, there is no dialog with them or oversight, and that is what is so frustrating to everybody. (Oper04)

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# Auditee Experiences (cont.)

- Auditees also struggled with how an audit should be conducted.
  - ...[other auditors] do an entrance conference with us to meet with the people that they should meet with, establish the parameters of the [audit] ... most [audits] we get an informal daily assessment “hey guys we found this, we saw this, we liked this, we’re still looking for this” ... they always do an exit interview at the end of the [audit] where they say “here’s a list of our preliminary findings” and at that point we have an opportunity to say you know “I’m confused about this” or “didn’t you see this piece of paper” ... little minor issues are headed off at that point. ... 9 out of 10 times of what they said at the exit is what we actually see on the [audit] report. Once in a blue moon they put something a little different of a twist in there ... There is a lot of feedback along the way ... [with healthcare fraud auditors] It’s just a letter and then you submit your records, and then it’s another letter saying you’re criminal and you owe a gazillion dollars (Exec09)

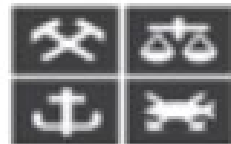
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# Lack of Knowledge & Expertise

- Knowledge of industry.
  - I don't think they know [what they are looking for]. I honestly don't. I talked to several providers and they all agree [with] me, we don't think they even know what they were [looking for]. (Exec01)
- Use of data analytic to identify anomalies and then using high risk findings to extrapolate across the entire population.
  - ... [the statistician] literally tore these people up. As to how inept, how ridiculous their formula was, and they couldn't document it, they couldn't back into how they got to this number. (Exec10)
- Fines for overpayment were consistently substantially reduced during appeals process.
  - I mean this is just extortion ... \$1.56 million [in fines assessed] turned into \$622. (Exec07)

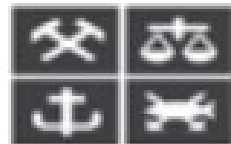
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# Lack of Certification

- Auditees questioned qualifications and experience.
  - ... we also ran background checks on the [healthcare fraud audit] people. One was a disbarred financial planner, one was a CPA that had his CPA license revoked, and the rest of them were all ex-cops, what the hell do they know about healthcare? ... so how can you look at clinical charts and evaluate them if you're not a clinician? ... we're like "what did you make this clinical decision on? you're an ex-cop". (Exec 01)
- We did follow-up using social media profiles of 180 of the healthcare fraud auditors.
  - Only 16% had healthcare background of any sort.
  - Most prevalent certification was CFE noted by 14% on their profiles.
  - Less than 4% a specialized Accredited Healthcare Fraud Investigator.
  - One CPA.
- Auditees delegitimized fraud auditors for not having certifications.

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# Make Non-Programmable Decisions

- Auditees perceived auditors had no understanding of healthcare.
  - ... what [healthcare fraud auditors] are doing, they're just checking off [the box], they're not really reading the medical content of the chart. (Exec08)
- Auditors identify claims as erroneous when auditee documentation contradicts the auditor's strict rule.
  - ... we use electronic signatures with a lot of the doctors ... and Medicare accepts it. ... when they do it electronically, the little symbol for the electronic signature also prints the date in... And they [healthcare fraud auditors] denied those claims saying that the doctor did not sign and date the order, he just signed it and the machine dated it. (Oper04)
- Overall, auditees believed auditors blindly followed prescriptions of automated tools without understanding how to aggregate and assess audit evidence.

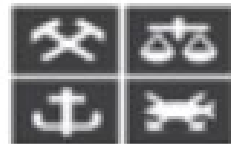
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# Public Interest Orientation

- Professions emerge and their existence is maintained by a need for activities that protect the public interest and address societal issues.
- Auditees completely understood the need for CMS audits.
  - If they [healthcare fraud auditors] are there and you [provider] did commit fraud I'm happy as heck. (Exec07)
  - The ones that are blatantly across the board committing fraud, shut them down, I have no problem with that. (Oper11)
- But auditees also understand the disruption of invalid fines.
  - ... we're going to stop taking Medicare totally, because at least we know Medicaid is going to pay. We got to meet our payroll. (Exec04)
  - ... we are making an assessment if we want to just stay away from Medicare patients all together ... this [audit] process bankrupt's companies. (Oper06)

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# Public Interest Orientation (cont.)

- Auditee's see audits transforming the medical field.
  - ... small mom and pop that are just a one location thing, if they ever faced this, they'd be out of business. (Exec09)
  - ... we've heard that there's companies that completely shut down. And then when they go to appeal the judge rules in their favor, but there's no company anymore. (Oper06)
- In one of our cases, the auditee was is the only provider in the region that delivers services over the weekend. The provider is closing down as their cash flow has been taken away pending appeal (auditors can tell CMS to stop making payments until issues are cleared up).

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# Discussion

- Our research raises two interesting questions that go beyond just the auditees' perceived non-professionalism of the data analytic driven medicare fraud auditors.
- First, our analysis puts forth the idea that auditees are socialize to expect auditors to exhibit certain professional characteristics, to follow particular processes and respect particular professional boundaries. When these expectations are violated, they delegitimize the auditors even in these new audit spaces.
- Second, our findings touch on the ideas surrounding the idealized professional (Suddaby et al. 2009). Ideals that certified/chartered accountants are also increasingly being questioned about meeting (but not by our auditees). Does this change as the traditional audit process becomes more automated and utilizes complex data analytics that are not easily explained or even interpreted?

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# Implications for Future Audit Research

- Our research indicates a need for future research on the role and power of data analytics in different audit contexts. Technological tools enable the commodification of audit procedures and provide auditors with 'expert' justification to structure and support audit work.
- Reliance on the technological tool allows the auditors to reduce human judgment and defer to the tool as the decision-maker. But, this also has long-term implications in terms of hindering development of individual expertise and a field's advancement of knowledge.
- While it may be tempting for accounting firms to hire nonprofessionals to be guided by data analytics to constrain costs, our results suggest that auditees' perceptions of auditors' professionalism may diminish.

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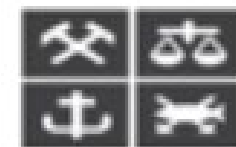
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