

New Challenge for Turkish Court of Accounts *Social Security Audit*

I am very grateful for your kind invitation to participate in this seminar and I am particularly honored to address you today. This joint initiative of the Supreme Audit Office of Czech Republic and the EUROSAI is indicative of the serious attention to combat fraud and abuse in the social security systems.

Let me begin by giving a short overview of my presentation. Firstly, I will present brief information about Turkey, Social Security System in Turkey and its reorganization and Turkish Court of Accounts (TCA) and its new duty for auditing SSIs. Next, I will present TCA experience regarding to tackle fraud and abuse in the system. Lastly, I will give some details about our findings related to the SSIs audit.

I-OVERVIEW

In this first chapter, I would like to give you general information about Turkey and Turkish Social Security System to help better understanding our main topic of this seminar.

1-Turkey in Brief

a) Location and History

Turkey is the confluence of East and West, historical country where the two continents and cultures of Europe and Asia meet and blend.

The Republic of Turkey was created in 1923 from the Turkish remnants of the Ottoman Empire, once one of the largest empires in the world. The Ottoman Empire collapsed after the First World War, and Kemal Atatürk, the founding father of the Republic fought many armies to reclaim the land that Turkey now possesses. The republic was proclaimed on 29 October 1923.

b) Political and Administrative Structure

Turkey is a parliamentary representative democracy. Since its foundation as a republic in 1923, Turkey has developed a strong tradition of secularism. Turkey's constitution governs the legal framework of the country. It sets out the main principles of government and establishes Turkey as a unitary centralized state.

The head of state is the President of the Republic and has a largely ceremonial role. The president is elected for a five-year term by direct elections. Executive power is exercised by the Prime Minister and the Council of Ministers which make up the government, while the legislative power is vested in the unicameral parliament, the Grand National Assembly of Turkey. The judiciary is independent of the executive and the legislature, and the Constitutional Court is charged with ruling on the conformity of laws and decrees with the constitution. The Council of State is the tribunal of last resort for administrative cases, and the High Court of Appeals for all others.

Turkish Court of Accounts, (TCA) is responsible for auditing on behalf of the Grand National Assembly (Parliament) the revenues, expenditures and property of government offices and is a collegiate Supreme Audit Institution (SAI) equipped with judicial power and not subject to administrative or political supervision.

c) Economy

Turkey' dynamic economy is a complex mix of modern industry and commerce along with a traditional agriculture sector. It has strong and rapidly growing private sector. The

economic situation in recent years has been marked by rapid growth coupled with partial success in implementing structural measures such as exchange-rate float, financial-sector reform, privatization, revenue-administration strengthening, investment climate improvements, energy sector reforms, and social security reform. A major political and economic issue over the next decade is whether or not Turkey will become a member of the EU.

The land area of Turkey, including lakes, is 814sq km, the population of Turkey approximately 73 million and the population growth rate is 1.53%. Turkey is a country with a young population.

2- Social Security System in Turkey

a) Brief Description

The Turkish constitution establishes the right of all citizens to social security specifying that; “everyone has the right to social security. The State shall take the necessary measures and establish the organization for the provision of social security”.

Turkish social protection system has two components, which are social insurance and social assistance. Insurance is compulsory for all salaried workers and self-employed, and cover their pension and health needs, as well as the needs of their dependants (families); assistance cover the remaining non-insured in need, via two separately managed health and old-age components.

Social insurance is the principal pillar of the system. Hence, we are concentrating on this element that formed as different institutions covering various working sector and generating benefits to them.

As for the non-contributory system there are many public institutions aimed at protection of the dependants and supporting them in several ways.

b) Organizational Structure

The social security system (contributory) in Turkey is composed of three different major organizations; Social Insurance Institution (SSK), Pension Fund for Civil Servants (ES), Social Security Institution for the Self-employed (Bag-Kur)

SSK (Social Insurance Institution)

SSK is a social security organization for private sector and blue-collar public sector workers. The law entitles all persons who are employed by a contract of service to benefit from social insurance and health care.

Agricultural workers, Self-employed, and Persons contributing to one of the pension funds established by law are excluded from the coverage of the SSK.

SSK members are insured for work injuries and professional job diseases, medical care, illness, disability, and maternity. When the insured person paid all his/her contributions for a specified period and have reached a specified age, they're entitled for Old Age Pension. If the insured person dies, widow, children, or close parents of the deceased are paid for funeral expenses and get his/her Pension payments.

ES (Pension Fund for Civil Servants)

This is a Government Employees Retirement Fund for retired civil servants, it also includes health insurance.

Besides retirements pension after completing a specific period of state service, the Fund offers other benefits such as a retirement bonus and a death grant payable to the survivors of a pensioner, and many other privileges.

Bag-Kur (Social Security Institution for the Self-employed)

This institution covers the self-employed outside the coverage of the Social Insurance (SSK) Law. These would be craftsmen, artisans and small businessmen, technical and professional people who are registered to a chamber or professional association, shareholders of companies other than co-operatives and joint stock companies, and self-employed in agriculture.

Members of Bag-Kur can choose the step at which they make their contributions between scales of 1 to 24, being 1 the lowest premium payment level with certain medical care limits. They are covered for all outpatient and inpatient diagnosis and treatment. Bag-Kur does not operate its own health facilities, but contracts with other public providers.

Non-contributory system in Turkish social security area consists of many organizations and programs such as Social Assistance and Solidarity Fund, Payment of Pension to the Elderly People in Need (65 years-old and over), General Directorate for Social Services and Child Protection and lastly Green Card for the Citizens Incapable to Pay for Health Care Services.

Among these non-contributory services the Green Card is the most notable in terms of its monetary volume. Most of the health care expenditures financed by the government budget are spending to the green card holder's health care expenditure annually in Turkey.

Green Card System

The Green Card system was established in 1992 and is directly funded by the Government. Poor people earning less than a minimum level of income which is defined by the law are provided a special card giving free access to outpatient and inpatient care at the state and some university hospitals, and covering their inpatient medical drug expenses but excluding the cost of outpatient drugs. The expenditure for the almost 11 million Green Card holders has exceeded Government allocations thus causing big gaps in the budget. Only the Ministry of Health is authorized to issue Green Cards.

c) Re-organization of the SSS' Structure and Reform

Turkish social security system has been developed under various social security institutions to provide social insurance against various social risks since 1945. Although the system has just 63 years history, it is in such situation that it is just able to provide its services with income support from general tax revenue which is a great deal of burden on the budget.

Budget deficit caused by the social security expenditures has deteriorated as the years went by and unavoidably urged the politicians to take necessary steps and make the system survive. Thus, the top priority of the government has become SSS reform and we can see that there have been real efforts of restructuring the system since the late 1990s.

As a result of this long desired ambition, the social security system in Turkey was radically transformed in 2006 with the enactment of the Social Security and General Health Insurance Law and the Social Security Institution Law.

Social security reform implemented in Turkey consists of four main elements integrating each other. The first element is the setting up of a single retirement insurance regime that includes short and long term insurance branches other than health insurance. The second is the creation of a general health insurance towards financing the providing of the health service for all population. The third is the gathering of social benefits and services that are currently being carried out in a scattered manner and establishment of a system based on objective benefit criteria and which is accessible by all groups who are in need. The fourth and last component is the creation of a new institutional structure, which will ensure to provision of above mentioned services in a modern and effective manner.

The social security system will thus be simplified and reduced in bureaucracy, benefits-liabilities will be equal for everybody, free health care will be provided to all children under 18 and retirement age is to be gradually raised to 65 by 2048. More Social Security Centers are planned at local level.

Main objectives of the reform can be classified as follows:

- to create a more effective and faster system for the provision of services,
- to create a sustainable social security system and achieve social solidarity,
- to establish a general health insurance to cover whole population,
- to develop the technological infrastructure and the strengthen the audit and inspection capacity,
- to increase citizens' access to the system by strengthening the local organizations.

Briefly, these new regulations in the reform package provide for general health insurance that covers the entire population based on contributions by beneficiaries in the form of monthly premiums and a set of provisions introducing stricter conditions and requirements for retirement.

Also, new laws are designed to prevent duplicate payments distributed by different social security institutions and the entire system will be administered by a single social security institution, in co-operation with sub-branches that are responsible for the distribution of benefits.

Before May 2006, the Turkish social security system was made up of three separate social security institutions widely explained above. Currently, the social security system is undergoing important changes through the recent adoption of the law on social security reform and the transitional period has been experiencing in terms of reform efforts in Turkey.

According to the law, the transitional period will continue to 2009 aiming to integrate three different social security institutions in one roof called Social Security Institution.

This unify will considerably improve the ability of the administration to accurately monitor the number of the insured persons, revenues and expenses, as well as to provide better customer service.

Additionally, this unification possibility will give us better opportunity to carry out our audit work effectively and efficiently in terms of detecting fraud and abuse in the system.

II- TURKISH COURT OF ACCOUNT AND SSS AUDIT

1-Overview

The current social security systems in Turkey are undergoing reform efforts and are relatively immature compared to the systems in place through developed countries. The instances of fraud and abuse within the Turkish social security systems constitute a problem but it is anticipated that the potential for fraud, both internal and external, will be grow with the increased pace of development of the Turkish systems and their wider coverage amongst the population unless necessary steps taken.

Social security systems audit is the new concept for the Turkish Court of Account. Up to 2006 the audit mandate of the TCA did not cover the SSIs. In line with the reform efforts made by the government to reach desired level of accountability and transparency in the public financial system has demanded comprehensive amendment in the related laws and regulations.

In 2003, a new law on public financial management and control system was enacted and gradually came into force to transform the whole public financial system into new situation. In this context, social security organizations became subjected to TCA audit with

year 2006. That year was the beginning of our challenge encountering new and huge audit field we have to cope with.

Before starting the main subject, I will give brief information about our organization to comprehend our audit approach and experience to the new field.

2-Structure and Legal Framework of TCA

The Turkish Court of Accounts (TCA) was created by an imperial edict of His Majesty Sultan Aziz I on 29 May 1862. By 1876 it became a constitutional institution when the first Ottoman Constitution was enacted. After foundation of the Turkish Republic in 1923 it was re-established and maintained its status in the republican Constitution.

Under the Constitution and the Law on the Turkish Court of Accounts, the TCA is responsible for auditing on behalf of the Turkish Grand National Assembly (Parliament) the revenues, expenditures and property of public administrations.

As external auditors of central and local governments as well as social security institutions we audit some 12.000 public sector accounts.

Our statutory mandate is to perform financial audit on the reliability and accuracy of financial statements and to determine whether the financial transactions related to revenues, expenditures and assets of public administrations comply with the laws and other legal arrangements.

The TCA is a collegiate Supreme Audit Institution (SAI) equipped with judicial power and not subject to administrative or political supervision. Because we are independent of the classic three branches of government namely, the executive, legislature and judiciary, we have complete discretion in deciding what accounts and subjects to look at and how and when to examine them; also in deciding whether reporting the matter in question to Parliament is necessary. We plan our work upon the proposals of the auditors.

In accordance with the newly adopted public financial management and control system and INTOSAI standards, TCA has prepared draft law, which is still pending in the Parliament.

According to the draft law, TCA will be able to conduct the system-based audits in consistent with the international auditing standards instead of a hundred (100%) transaction test basis.

A hundred percentage of transaction test obligation, which is compulsory according to the TCA law in force, is the main obstacle we are currently facing during our audit in the social security institution accounts. Draft TCA law will eliminate this unfit requirement of the current law and enable us to conduct our work effectively.

3-Conclusion

Auditing of the SSIs was given TCA by the amendments of Public Financial Management and Control Law (PFMC) in 2006. PFMC law also authorized TCA to carry out audit at Regulatory and Supervisory Institutions and the other government institutions that are not subject to TCA audit before.

As for the subject, SSIs audit was the new and challenging area for the TCA. The audit work conducted by the TCA has been focused on the regularity audit especially in the public organizations within the general and annexed budget and local administrations and bound to the articles taken place current TCA law. However, SSIs are not suitable for the ongoing audit approach and legal framework we have to obey when we conduct our audit work in terms of their structure and function.

Taken into consideration the volume and nature of the transactions occurred SSIs it is the reality that the introducing IT tools and the usage of the modern auditing techniques rather

than a hundred percentage test of auditing should be one inevitable option for us. Unless the auditing system is reformed, corruption can not be prevented. We faced this bare reality during at SSIs audit work.

But, we have two main obstacles doing so. First one is the necessity of hundred percentages test of transactions resulting from the legal reasons. Current TCA law requires that all transactions must be reviewed by the auditor and nothing can be neglected during audit facility for the reach of responsibility all liable persons in charge of using public money. Second obstacle we have faced in the SSIs audit is the reorganization of the social security institutions and ongoing transitional period in the field which caused poor and complex accounting record and harmed accountability and transparency requirements of the system.

So, we have not obtained accurate financial statements from SSIs in two years period and even yet.

We hope that the first obstacle will be tackled by enactment of the new TCA law which is still pending at the parliament and enable us to make use of the modern audit techniques in line with the international standards and EU practices. Draft TCA law now on the government's agenda and it will be get into force by the end of this year.

Stemming from previous years' difficulties, the second obstacle mentioned above can be eliminated by developing mutual dialogue, understanding and assistance to the top management of the SSI and the audit team.

In this context, the audit team from TCA and the responsible persons form SSI now holding the meetings and sharing information in a regular basis.

III- DETECTION OF FRAUD AND ABUSE IN THE SYSTEM AND TCA EXPERIENCE

1-Bad-structuring and Government Interferences Caused Fraud and Abuse in the System

Until 2006, before making serious structural changes in the system, Turkish social assistance system explained in detail above was more vulnerable any kind of irregularities than presently.

Social security organizations were in principle independent on a wide range of matters, including the right to propose benefit and contribution rules or rates according to actuarial considerations, and to manage their assets portfolios. In practice however, the government guided the structural decisions of the funds, concerning their premium and benefit rates and their investment policies. The administrative costs, managerial continuity and investment performance of the funds all suffered as a result of such political interference. Even day-to-day management could come under policy influence, as evidenced by the rapid turnover of general managers. The sizeable job creation and employment potential of SSIs (SSK alone had 57 000 workers) could be one reason for this interference. Another was the scope and magnitude of their investment and assets management power.

In the past period SSIs were forced to invest in placements bearing negative interest rates. Moreover, each one had own policy, retirement scheme, health care coverage, social benefits and more importantly separate accounting and managerial system, which became leading reason of the irregularities.

The former social protection system both contributory and non-contributory, although still partly existing due to transitional period will occur until 2009, has provided benefit in kind and benefits in cash with several institutions of which competences has been overlapped. In the early system the institutions with overlapping competences and different policies

decreased the efficiency of the system and caused the appearance of the fraud and abuse cases widely.

The poor Usage of the IT technologies within these organizations and lack of the effective internal control mechanism could be deemed as the deficiency of the system and urged the politicians to make radical changes introducing new technologies and amending the legal framework of the system.

2-System's Own Defense Against Fraud and Abuse

Lastly published report by OECD on the usage of the IT technologies in the government agencies suggests that, including \$2.5 billion in public investment for social security have been taken towards the prevention of fraud, resulting in \$1 billion in annual savings and increasing efficacy, resulting in another \$3 billion in annual savings.

According to other report published by the World Bank on June 26, 2008, Turkey showed considerable progress with respect to accountability and the fight against corruption in 2007 compared to 1996.

According to the World Bank report, many developing country governments including Turkey are making important gains in the control of corruption. The report says that political and institutional reforms are empowering Turkey in its fight against corruption. Also the strengthening of the audit capacity of TCA and the law on access to information, that allowed citizens to seek information from public institutions are listed as important actions in the fight against corruption.

According the 10th Global Corruption Survey conducted on Aug. 12, 2008, by Ernst & Young, an auditing and counseling firm, 68 percent of executives of international firms surveyed believe that measures against bribery and corruption are not sufficiently strong in Turkey.

The survey, conducted with the participation of 1,186 top executives from 33 countries, showed that there is a rising awareness against bribery and this has encouraged international organizations, including the UN, to draft important anti-bribery agreements.

The participants noted that anti-corruption and anti-bribery laws in Turkey have been made stronger, although existing sanctions and public pressures are behind the worldwide average. This implies that legal sanctions cannot be properly implemented in Turkey.

However, the survey found that compared to previous periods, the anti-bribery laws have become stronger in the last five years.

According to the survey, the rate of success by internal audits in detecting and preventing bribery and corruption is 72 percent worldwide, but 52 percent in Turkey. On the other hand, 52 percent of executives in Turkey believe that auditors are sufficiently informed about bribery, corruption, risks and indicators.

The pictures showed above suggests that only making legal regulations does not produce reliable results regarding fraud and abuse, but the mechanism which nurtures fraudulent cases solely be demolish by the blend of legal actions and using modern techniques. After the reform efforts and introducing IT tools, social security system in Turkey has become more sensitive towards fraud and abuse.

Besides using effective IT technologies in the social security system, autonomy of the Social Security Organization which is constituted unifying three different institutions into one roof, have been important progress towards making strong structure to prevent irregularities.

Actually, autonomy implies the introduction of appropriate mechanisms to ensure political insulation of the funds in terms of determining pension rules, personnel practices, and investment strategies.

One important point must be addressed regarding SSI's own defense to prevent fraud and abuse is that to design well-functioned internal control unit. Inspectors and internal auditors are coming from three former SS institutions and constituting single internal audit board within the organization. Many fraudulent cases have been revealed by the internal control unit lately.

In an effort to fight against fraud and abuse, SSI not only underpinning to create a autonomous structure, but also introducing a web-based track instrument as an IT tool to challenge its struggle especially health care expenditures which is constitute a big proportion of its expense.

3-MEDULA Web-Based IT Tool

Social Security Institution which is the unique and umbrella organization composed of three in the field is launching new IT structuring to discipline health care expenditures. New system named MEDULA has aimed at to provide tracking health care expenditures throughout the country and getting information from the health care service provider such as hospitals, drug stores, laboratories, optician and family physicians.

MEDULA is a comprehensive provider data analysis and modeling application designed to review healthcare claims that may represent questionable or abusive billing practices. Introducing MEDULA system, SSI has gained following advantages;

- Savings from health care expenditures,
- tracking the transactions in individual base,
- determining the expense variety,
- developing standard structure in the field of health care
- applying EU and WHO standards in the health care system,
- providing rationality in implementations,
- lapsing working environment without files and papers,
- preventing individual mistakes in the system,
- helping the audit mechanism,
- gaining statistics data from the system,
- upgrading robust accounting and payment systems.

To help detect health care fraud, MEDULA examines and flags potential claims daily prior to payment. The review process identifies claims and providers processed by a payer's system and compare each claim against proprietary databases that are updated daily from ongoing investigations. This prevents claims from being paid out in error and provides the claim file documentation for the payment avoidance or the reduction in payment.

MEDULA is also programmed to detect relationships and trends in providers claim billing that indicates potential fraud. It assists the SSI staff with compliance monitoring, provider referrals and utilization review. MEDULA provides additional research on potential fraud and abuse; receives and has access to all kind of relevant electronic data for comparisons with provider data; helps find abusive or fraudulent practices using target queries on procedure or diagnosis codes and tracks the progress of individual cases.

4- Fraud and Abuse Cases Commonly Detected

Here, it will be given some of the examples of the fraudulent acts which is widespread and commonly encountered by the audit both TCA and internal control unit of the social security field.

Despite the lack of effective use of IT tools and classical audit approach, which is not suitable for the SSIs auditing, our commitment to fight against corruption has helped us to reveal some fraudulent acts in the course of the audit works. In the first sight, commonly encountered abusive actions and irregularities in the field of social security in Turkey as follows;

- unregistered sector workers gain coverage as pensioners or dependants or by fraudulent use of other individuals' cards,
- false medical certificates are used to get fraudulent benefits,
- prescription of pharmaceuticals does not match requirement of the actual condition of the patient,
- deaths of beneficiaries are not registered at the Department of Home Affairs to continue getting benefits from the system as pension and medicine,
- illegal retirement with the assistance of the preparation of the false documents,
- sale of the drugs with inflated prices,
- inflating charges for patient's care to make these appear more costly than they actually were by the hospitals both private and even public to redouble these gain from revolving funds,
- claiming medically unnecessary treatment and operations such as angiogram, angioplasty, and stenting procedures,
- claiming non-reimbursable costs by the providers,
- performing unnecessary dental procedures on patient and billing for service not performed or not performed as indicated,
- divorcing legally but not in reality to get cash benefit as divorced dependant for women,
- and so on...

These types of fraudulent acts always take attention from the public eyes and grab media interest covering newspaper's column. Now, I would like to share an interesting fraud case from media coverage which is funny and thought provoking at the same time.

Thursday, February 24, 2005

ANKARA – Turkish Daily News

Police have arrested 12 Social Security Authority (SSK) members who have been charged with tampering with documents in order to retire or with arranging the unlawful retirement of others.

The investigation was initiated when police received information on individuals altering official documents. It was discovered that a criminal organization had been present and active in several SSK hospitals around the country, helping people prepare phony documents for retirement.

The fraud was exposed when the investigation revealed that some male SSK members were diagnosed with cancer of the uterus, using falsified documents prepared by suspects. Police arrested five people accused of preparing the documents, five who had retired using them and two people who had submitted retirement applications.

5-Social Security Audit Team at TCA

The audit teams responsible for the auditing of social security organizations were established in 2006, at the first time. Since empowered of the audit duty for the SSIs, TCA

structured parallel structure regarding audit teams for each social security organization. Namely, TCA composed three different audit teams in pursuant to the structures of the three separate institutions, which are SSK, Bağ-Kur and ES.

For each audit team, more than ten auditors were appointed. But the results of the audit were unsatisfactory because of the method we used at the audits. As a matter of fact, the nature and bulk of the transactions did not allow us to carry out our duty properly. The situation was simply failure. For example, covering only daily transactions for the health care expenditures for one branch of the SSI has made up a bulk as big as two trucks load. Is there any sensible way to audit that much documents because of the requirements stemming from current TCA law? The answer must be “no”.

What we take actions against this situation is to use IT tools to cope with that much of transactions and documents. Top management of TCA introduced new measures that all auditors assigned to SSI audit has to receive IT training and must know how to use the ACL, which is special computer software for CAATs. After introducing IT tools the workload of the auditors decreased and enabled us to audit more effectively.

Present structuring at TCA regarding SSI audit is parallel to the institution's transitional requirements. Three separate audit team have been combined one audit team, which consists of 30 auditors, and divided into four sub-teams to be in charged with different duty within the main team. First sub-team is responsible for the audit merely SSI. Without regarding its function and main activities in the system, SSI independently constitutes a major organization with 4000 staffs in respect of the audit scope of TCA. Second and third sub-teams are charged with the audit of the health expenditures of the social security institutions. Last sub-team is responsible for the preparation annual reports and monitoring developments in the area and tracking fraud and abuse cases revealed by or denounced to TCA.

6-Conclusion

It is not easy task to audit huge area if the matter is abuse and fraud. According to the current legal framework, TCA does not have powers of investigation but audit. We contribute to fighting against corruption by fully exercising our role as a watchdog over public funds.

The individual corruption cases detected in the course of TCA audit and nature of the cases deemed as crime are sent to public prosecutor and to relevant administrative authorities for investigation. However, these legal requirements do not constitute a barrier in front of the TCA regarding its attitude towards fraud and abuse cases. In the developing and expanding audit scope and new duties have been urged TCA and more importantly government to fit new and broad authorization to take corporate actions against fraud and abuse in the social security system. The articles taken place the draft TCA law and EU harmonization efforts, which is require many amendments in the relevant laws and regulations, are the indicators of these ambitions.

As a last word, we have to promote the development of appropriate administrative capacity and legal regulations and more importantly generalizing the use of inventory audit techniques to prevent and fight effectively against fraud and other irregularities affecting social security system, including the establishment well-functioning structures involving all relevant national entities.

