

Do You Have a Silent Partner?

Beware of embezzlement!

BY MICHAEL FORMAN, DPM



How likely are you to have been embezzled by one or more employees? The answer is clear: VERY likely. How likely are you to be embezzled in your workplace in the future? The answer, again, is a clear VERY likely. What makes me an expert? How do I know? More than once I have shared my profit with an embezzler.

What Is Embezzlement?

Embezzlement is defined as the misappropriation of funds or materials for personal use by an entrusted individual. Embezzlement can happen in any size firm, from a small medical practice to a Fortune 500 firm. Banks and larger firms employ some very smart auditors and yet are victimized every day. “The dollar amount is painful enough, but the scorched earth around it is equally hurtful.” (Name Withheld, *PM News* 10/24/13)

Who Will Steal from You?

Answer—anyone. One source states that 58-64% of embezzlers are women, most being between the ages of 40-49 years of age. While there are fewer male embezzlers, men generally are involved in the theft of

greater amounts of money. Hello, Mr. Madoff. 84% of these swindlers work alone. That being said, profiling is almost useless.

There are a number of reasons that employees will steal from you. These include:

- A poor economy
- Entitlement

There are many ways to stick a hand in the cookie jar:

1) *The most common form of embezzlement in business is the issuance of bogus checks.* The miscreant sets up a “straw” corporation and submits invoices for payment. For example, one of your employees sets up a fraudulent company such as

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- Drugs or other addictive activities such as alcohol and/or gambling
- Support of personal business
- Supporting others

Detective Harry Rose of the North Randall, Ohio Police Department said that embezzlement in medical offices is a common crime that law enforcement has to deal with. Mr. Rose relates that many of these crimes are never reported due to the doctor’s involvement in creative insurance billing and/or extra-curricular activity with the office staff. Enough said.

“Joe’s Foot Shoppe.” They send a bill to your office asking for payment of a fictitious debt. They may use a post office box as a return address. Unless you or your accounts payable clerk check this “order”, it is likely to be paid. These bogus checks can be difficult to find without proper supervision.

The director of public relations at one of the hospitals that supported our residency program did just that. She submitted bills for radio advertising, which were paid to a post office box. When no one heard the ads,

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she was questioned. Her response was that these ads were run between 1:00 and 3:00 AM. She embezzled the hospital out of millions of dollars over a number of years.

She and her husband, an attorney, lived a grand lifestyle, which included a million-dollar home, expensive cars, and grand vacations. They ended their lives soon after being discovered, huddled together in the basement of their mansion. The hospital president lost his job. This form of misappropriation of funds accounts for 37% of embezzlements in all businesses.

2) *The second most common method is the stealing of cash and check receipts of the business.* In our practice, the first episode we dis-

covered involved stealing at least \$60,000 by taking cash and forging my name on the endorsement of the check. The cheat tried to cover her steps by adjusting out the amount of

money stolen from the patient's account. Once the money has been adjusted, the patient or insurance payer will not be asked for any money and

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covered involved stealing at least \$60,000 by taking cash and forging my name on the endorsement of the check. The cheat tried to cover her steps by adjusting out the amount of

the embezzler's tracks are covered. Note: this employee spent only one night in jail; however, we sued her successfully for half of the money and sued the bank successfully for the other half.

3) *A very common form of theft is taking supplies.* This may not account for a large portion of money, but it is stealing just the same. If employees have no moral dilemma stealing a jar of Biofreeze, they will have no problem expanding their little racket to include other goodies and eventually money. One of our employees made a cottage industry by selling our inventory to her friends.

4) *Another form of theft is the stealing of hours.* Our office used to hang payroll sheets in the lab, and employees were asked to mark their hours on these time sheets. This information was given to our payroll company, who would generate the pay checks. The last employee (that I know of) was billing me for 40-45 hours a week. Interestingly, she didn't work on Wednesday, Saturday, or Sunday and was gone by 4:30 PM every other day. I guess she was taking work home—NOT.

What Can I Do?

While there are no absolute rules to prevent embezzlement here are some steps that may help. Most important—be involved.

There are three measures that should be instituted to minimize bogus checks. First, an owner of the practice must be the one to sign checks—not the trusted office manager. These checks can be filled out by staff, but only an owner can be a signer on your account. Second,

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Checklist: Minimizing the Likelihood of Embezzlement

- 1) Be involved in your own business.
- 2) Only the owner of the business can sign checks.
- 3) If you pre-sign checks, consider obtaining psychiatric care.
- 4) No check should be written without a corresponding invoice, and know the payee.
- 5) Keep your checkbook under lock and key.
- 6) Every task that involves money should be overseen by at least one other person.
- 7) Offer a reasonable salary to your employees.
- 8) Utilize a verification service.
- 9) Check new hires by speaking to previous supervisors, not friends or teachers.
- 10) Use a numbered receipt book.
- 11) Keep a day sheet for incoming cash or checks and correspond this to the receipt book.
- 12) Make daily deposits.
- 13) Adjustments of balances can only be made by the billing service (insurance balances) or with the permission of the owner.
- 14) Bond all employees and purchase a monies and security policy.
- 15) Approve all purchases.
- 16) Use a post office box for incoming payments with only an owner having a key.
- 17) No doctor or employee should ever take cash for anything.
- 18) If you can live without a petty cash box, do it.
- 19) If you discover theft, your first call should be to your attorney or the police.
- 20) Involve your accountant, attorney, and/or practice management consultant with these decisions. •

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OMG, never sign checks before they are written. And third, each check presented to you for signature must be accompanied by an invoice. The signer of the checks should be familiar with each payee and match the invoice to the statement. Be involved—know who Joe’s Foot Shoppe is.

One is the most dangerous number in your practice. One employee tasked to do one job lacks oversight. The more responsibility you give to one employee, the easier it is for that person to embezzle. The more the doctor takes part in the business of the practice, the less likely he/she will be robbed. The surefire way of preventing embezzlement is if the doctor did every task himself. Obviously this is impossible most of the time unless you have a very small practice or work entirely by yourself. An example would be a nursing home practice where the physician sees the patient, produces the insurance claim, and personally collects the money. For the rest of us, we have to institute a system which is meant to prevent office fraud.

tion of the practice. The second may work only with patient care. Your job is to cross-train both employees so that each has some idea of what the other employee is doing. A bonus is that your office can still run if one of your assistants is ill or on vacation.

action to take is to bond every employee. You can bond each employee separately or you can adopt a blanket policy that will cover all non-physician employees. A blanket policy prevents you from constantly contacting the carrier each time you have a new

Following the hire, easily the first action to take is to bond every employee.

While there are no absolute rules regarding identification of potential embezzlers, there are steps that may help. Start new hires at two to five dollars more an hour than most other practices. As a result, you’ll get a better quality applicant. Rather than hiring someone who is currently unemployed, get someone who is coming from another practice or hospital. You’ll probably get a better quality of applicants.

When hiring, be involved in the selection process. This does not mean that you have to handle the process yourself, but at a minimum,

hire or when an employee leaves or is terminated.

Contact your general insurance agent for a bonding. Scroggins-Grear, an accounting and management firm, recommends that you maintain at least a \$100,000 fidelity bond. An employee bond only covers loss secondary to dishonesty. It will not cover the mysterious disappearance of money. You can purchase an endorsement called “monies and securities coverage.” This type of policy is generally more expensive than a bonding policy.

Scroggins-Grear recommends that it should cover the total of several bank deposits or at least \$1,500 with a forgery endorsement added. I learned this lesson the hard way. We once changed post office boxes. Some of the checks were stolen by the next owner of our previous box. We didn’t have this coverage and were unable to recover any of these funds. Bonding does little in the way of preventing office theft, but it ensures that you can retrieve some lost income. The bonding company will often investigate the crime. It’s nice to have “big brother” on your side.

Always have checks sent to a post office box. An owner of the practice should be the one to empty the box daily. We suggest that deposits be made every day. Why let money just lie around asking to be taken by someone else? Compare the deposit with the total funds received that day. A common method of covering stolen funds is to artificially adjust out balances. If the amount stolen is not adjusted, your accounts receivable check will be off, and the

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Oversight is one more reason to develop a multi-doctor practice large enough to have two or more people involved in each financial task. If you only have one person tasked with a job other than yourself, you have no other oversight. If more than one person is tasked with any job, there is someone who sees what his or her fellow employee is doing.

Most embezzlers work alone. Multiple employees working on the same task make discovery of embezzlement much easier. This is not to say you should hire more employees than you need. Many of my colleagues employ two podiatric assistants. One works at the front desk and is in charge of the business por-

tion of the practice. The doctor should be involved in at least one interview. We have found that we can’t give much credence to the applicants’ answers, only in how they answer. Remember that every applicant is nervous and will probably function better as an employee than an interviewee.

Personal references are useless. The two best criteria are speaking to their previous supervisors, and using a verification service prior to making your final selection. The latter is a surprisingly inexpensive process, but it may be the best way to avoid hiring a potential crook. That being said, proper selection of employees is no guarantee of success.

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patient will be receiving a statement for that amount.

For an example, Mr. Joe Fabitz comes in and pays \$50 on his balance. That \$50 must be reported on your day sheet. But what if the miscreant doesn't report the payment and artificially makes an adjustment on the Fabitz account? Fabitz won't get a statement and you won't get the money. You will never know unless you check every adjustment made.

If you use a billing service, they will make all insurance adjustments. No problem there, as they have no reason to fudge as they never touch the money. It is the adjustments made in the office that are a concern. Thus, it behooves the owner to check the amounts being adjusted by the office personnel. If you don't use an outside service, you are going to have to check all of the adjustments. What a boring job! If you don't question every adjustment, at least spot check. At least let "them" know you are looking.

- Use a numbered receipt book. Every payment made to your office should generate a receipt given to the patient with a copy for the office. Each receipt is numbered.

- Keep a day sheet listing every cash payment or check that comes in. The day sheet should indicate the date the payment was received, the amount, the payee, the check number, and the number of the receipt given.

- At the end of the day, the receipt book or journal should be checked against the cash and checks on hand prior to making your bank deposit. Check the receipt number on the day sheet against the receipt book itself. A common trick by a dishonest clerk is to give the patient a receipt for their money, adjust the amount off of their ledger, but neglect to deposit the cash or check. Be sure each number in the receipt book is noted on the day sheet.

If this is a multi-assistant practice, have the clinical assistant prepare and handle the deposit. If there is only one employee, the doctor should compare the day sheet to the receipt book and make his own deposit.

What about stolen hours? All

work must be done at SET times IN THE OFFICE. Many of us, in an effort to keep an employee working who cannot leave his or her home, may allow the worker to take work home. This course can be construed as a passive acceptance to exaggerate hours. Don't tempt dishonesty. Go back to the beginning of this article

Cleaning crews can be just as guilty of stealing from you. Lock up your checkbook.

Supply orders should be reviewed by a second person or the doctor. We have seen instances where extra items are ordered for personal use. Try to have at least two employees working at the same time. This will

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and reread the reasons people steal. These reasons can apply to anyone.

Invest in a computerized payroll system to track hours of employment. There are a number of companies that offer a low cost web-based solution where the employees must log on to register their hours. Our payroll company offered this service. They can then incorporate this information when computing your payroll.

Assign each employee a personal password to enter the system. Co-workers should not know the passwords of other employees. Otherwise, two or more employees can sign each other in or out. This course of action requires collusion. Check to see if the company can identify which computer sent in the hours. In our group practice, we discovered that one of our billers checked in and checked out at her home.

Keeping your supplies just for your patients can be difficult. There are many things that can be stolen from your office. We had one enterprising, now ex-employee, take home products that we normally dispense and charge for and set up her own little business out of her apartment. If possible, store the more expensive products and expensive injectables in a locked room. This would be a great place to keep your checkbook.

By the way, one little dirty trick that these crooks can use is to tear out checks with higher check numbers than you are using now. By doing this, you may not realize that a check was taken until you start using these higher check numbers.

make it more difficult for an assistant to hand out supplies to favorite patients or friends, especially when you're not there. One is the most dangerous number in your office.

Discovery

Okay, so what do you do if you suspect you are getting "ripped off"? First, don't be your own cop. The police are much better at their job than you are. Get others involved: the police, your bonding company, your accountant, and your attorney. If you don't remember anything else from this article, remember this advice from an attorney: If you make a deal with the devil (your employee) that you will not go to the authorities to report their theft if they repay you, you can be accused of extortion or blackmail.

Extortion is the corrupt collection of a fee by a person using the power of his office as pressure. "If you don't pay me the money, I will go to the police, tell your husband—wife—partner, run an ad in the newspaper, slash your tires (well, maybe not that)." Some states broaden the definition of extortion to include blackmail. Don't let an unreliable employee make you the bad guy. **PM**



Dr. Forman is Past Professor of Biomechanics, Kent State College of Podiatric Medicine, Diplomate, American Board of Podiatric Surgery, and survivor of several office embezzlements.