



Protecting Your Practice from Embezzlement

Pay heed to these theft prevention tips.

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Under common law, per *Black's Law Dictionary*, embezzlement is defined as “the fraudulent appropriation to his own use or benefit of property or money entrusted to him by another, by a clerk, agent, trustee, public officer or other person acting in a fiduciary character.”¹

With the hectic schedule that physicians typically follow, many doctors are all too happy to turn over the financial details of their practice to their staff. Given the close relationship among employees of medical practices, especially small practices, trust in one another is taken for granted. However, even with sophisticated cash management and billing software, embezzlement still occurs with alarming

regularity in physicians' offices. In a practice without sufficient internal controls, that move could cost you dearly.

There are steps that practices can take to recognize fraud and embezzlement and prevent it from occurring in the first place. Staying vigilant

policies to support internal controls, and establish hiring practices that are thorough and responsible.

Recognizing Embezzlement

Your practice is busier than ever, but your cash flow seems to be suffering despite correct billing and

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about protecting your practice from all forms of embezzlement is a must. Avoiding losing money, whether to inaccurate billing or fraud, is as important as generating revenue for the financial health of a practice.

No matter the size, the location, or the medical expertise of a practice, fraud and embezzlement can strike unless several steps are taken by administrators to recognize areas of financial risk, identify actions and

timely third party payments. Where is the problem?

Often, egregious instances of theft go unnoticed, because it is the embezzler who records payments and balances the books. Unless your practice has a system of checks and balances in place, you probably won't notice missing revenue. You may be concerned that your receipts are not what they should be, but you won't know why.

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The first step is to closely monitor those financial activities that are most prone to fraud and embezzlement: collecting copayments; accounts receivable; dealing with vendors; and getting payroll in on time. Your general accounting is another high-risk area.

There should be clear policies in place with assignments as to who collects what types of balances; who orders supplies, who approves bills, and who writes checks. Embezzlement can occur when employees:

- Steal petty cash;
- Create fake vendors to pay;
- When handling payroll, overstate hours worked or give themselves bonuses or raises;
- Use the practice's credit cards for personal expenses; and write checks on the practice's account for their own benefit.

Minimizing cash handling in the office is a good policy, because it's just an invitation to steal. Employees, janitors, and night staff can all find out where the cash is kept. A fairly common method of embezzlement involves staffers who create false invoices and then prepare checks for those invoices and divert the payments to themselves. Using practice credit cards for personal purchases or applying for company credit cards for themselves also are ways employees may be stealing from the practice.

Audit Your Books

Take a critical look at your profit-and-loss statement and make sure that the numbers make sense to you. Review the practice's bank and credit card statements every month. Look at orders and payments to vendors. Check the petty cash account.

Review your patient accounts, especially those "on hold." It is possible for an employee to use a patient to funnel money to the employee, unbeknownst to that patient and the rest of the practice.

Your electronic health record system can be an effective tool to help prevent fraud and embezzlement. Many programs can be used to track every transaction and dollar, perform audits, and support procedures already in place

at the practice. Check with your vendor to find out what is in your system that can support your practice management policies and procedures. Be sure to have internal controls in place regarding finances—and use them.

Look for Suspicious Behavior

Employee embezzlement often starts small. "Borrowing" from the petty cash drawer to buy lunch or get gas when short on cash is the most common. If this is overlooked, it could escalate into pocketing cash copays from patients, submitting false

• Who have a sudden change in lifestyle; or

• Who regularly take a laptop home even when their job does not require that.

Internal Controls Can Spot Shrinking Assets

Measures that are needed to diligently protect a practice from embezzlement can be costly and take away precious billable time, but they're worth it.

To start, be sure to do background checks on all employees. You can

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invoices, or using the practice's credit card for personal expenses.

There are three common elements individuals use to justify their embezzlement:

- Opportunity;
- Need (either real or imagined); and
- Rationalizing.

These employees often feel that doctors either make so much money due to their profession or benefit from the majority of the practice's revenue that other employees are "entitled" to some of those funds.

Who in your practice could commit potential fraud or embezzlement? Red flags include employees:

- Who are overly defensive;
- Who manage patient refunds;
- Who tend not to take vacations (so another person doesn't take over their responsibilities and discover illicit activity);
- Who actually refuse a promotion or transfer (feeling they have a good situation and don't want to give up their illegal activity);
- Who oppose cross training;
- Who resist having changes made in their job description;
- Who refuse help with their assigned tasks;
- Who are overly friendly with vendors;

have background screening done on employees through online services; however, you must disclose this on your employment application. If current employees never went through a background check, consider doing them retroactively. It is an expense, but a necessary one. On the employment application, be sure to ask about prior convictions and any other names or versions of names that applicants may go by. Check references.

To prevent misappropriation of practice assets, it is imperative to implement internal controls in your practice.

Because cash, incoming checks, and payroll represent the three areas in your practice most susceptible to theft, consider putting the following controls in place:

- Record all transactions: accounts payable, accounts receivable, refunds, adjustments, copayments, and even write-offs;
- Reconcile receivables and charges every day;
- Issue a receipt for each transaction, and balance receipts each day with a second person verifying the balance;
- Immediately stamp checks "for deposit only";
- Retain charge sheets and explanation of benefits statements to support daily transactions;

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- Routinely verify petty cash balances;
- Periodically conduct outside audits;
- Keep duplicates of all deposit slips;
- Periodically review accounting entries rather than just checking totals; and
- Monitor the controls you have set up.

Some additional procedures can help you avoid certain problems or pinpoint them early on. Where possible, separate duties and cross-train employees so that different employees handle and record cash. For example, many practices assign different employees to open mail, prepare deposits, and post receipts to the practice management system. This creates a system of checks and balances in handling money because no one employee has control over revenue, expenses, or inventory. In addition, consider having your employees review each other's work on occasion, or switch tasks. This ensures that no one individual is the sole party responsible for handling certain types of transactions.

From time to time, take the time to open all of your own mail, because the clerical staff member to whom you delegate such routine tasks probably won't know enough about the practice to recognize when something coming

through the mail is amiss, such as overdue notices if a bookkeeper is diverting funds. Other safeguards you may wish to implement include the following:

- Use an external CPA trained to develop and test the practice's internal financial controls.
- Send bank statements directly to an external accountant who will check bank deposits against the practice management system's totals.
- Require the signatures of physicians or appropriate level management on checks.
- Refuse to sign blank checks or allow the use of signature stamps.
- Approve financial transactions such as writing off accounts receivables only by appropriate staff. Generally, the physician associated with an overdue account should get involved before writing off the amount or contacting a collection agency.
- Be alert to unusual inventory purchases or an increase in purchases.
- Compare expenses with those from previous years and look for unexplained increases, especially in payroll, write-offs, adjustments, and refunds.
- Check references on all newly hired employees.
- Purchase employee fidelity bonds from your liability insurance company.

Embezzlement Prevention Tips

Basic embezzlement prevention tips include the following:

- Remove temptation by depositing petty cash into the bank every night.
- Avoid having the same person responsible for both opening the mail and paying bills. This makes it too easy to hide evidence of embezzlement.
- Establish strong policies and internal controls and keep a watchful eye on all handling of money in the practice.
- Encourage professionalism. Hire the right people by checking backgrounds; verifying past employment, licenses and certifications, and education; and doing drug testing.

If you suspect that you are the victim of embezzlement, seek legal advice immediately. Your attorney should prepare a legal and investigation strategy, which should include working closely with your practice CPA or an outside forensic accountant.

Physicians often are eager to avoid all the paperwork and don't look at financial statements because they just want to treat patients. This is admirable, but if you are going to have a viable practice that allows you to continue treating patients, you must pay attention to the business side of the practice as well. **PM**

Reference

¹ Black's Law Dictionary. <https://thelawdictionary.org/embezzlement/>.

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