



COVER STORY

EMBEZZLEMENT: It Can Happen to You Don't Be a Victim!

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Yes, embezzlement can happen to you. Sadly, it's more common than you think. But there's no need to be a victim. Here's how to protect yourself and your practice. Second in a bi-monthly series of practice management articles.

How often have you heard of an employee stealing from another health-care practice and thought, "It couldn't happen to me"?

Warning: That kind of blind faith could put your practice in peril. A trusted employee who's handled the accounts for years could take advantage of the bond she's built with you. In the daily bustle of running a practice, it's possible to become overly confident in — and dependent on — your staff member, delegating too much authority and ignoring your part in safeguarding your accounts.

It could be that "Sally" has always been trustworthy, but something goes awry in her life that prompts her to feel desperate enough to steal. Perhaps her personal budget gets stretched too thin, and she "borrows" just a little from petty cash to tide her over until payday. She has every intention of replacing the money, but something else comes up the next week, and before too long things snowball out of control.

Or, maybe "Mary" has had enough of her employer's supposed tightwad ways or arrogant attitude, and decides it's payback time. She comes up with some devious ways to steal money from the practice, and covers her tracks well.

In some cases, even a family member can surprise you. Not too long ago, as I was speaking before a district dental group on the subject of employee dishonesty, I noticed a dentist in the front row whose expression kept turning more and more sour. During

the question-and-answer period, he could barely contain himself. "I heard everything you said and I couldn't emphasize it enough," he said.

Turns out that his wife, who'd worked for him, had stolen from his practice for years and subsequently divorced him. To top it off, the IRS assessed him taxes for the unreported income that his ex-wife — not his practice — had collected.

It's important to remember that mistakes can happen, too. But proper controls can help diminish both mistakes *and* the temptation to steal.

Taking precautions is worth it. After all, employee embezzlement reportedly costs American companies *billions* each year.

Internal controls a deterrent

Allowing one staffer to handle all the finances can be an invitation to embezzlement. Without a system of checks and balances, an employee bent on fraud can find various ways to steal from you with a low risk of being caught. And by the time you or your accountant do catch on, your practice can lose a great deal of income.

The most-effective deterrent to employee theft is segregation of duties, if possible. One staff member should receive payments from patients and prepare the bank deposit slips, while another posts payments to the accounts, reconciles bank statements, and performs other accounting functions. By segregating duties,

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there's little chance for an employee bent on theft to cover his or her tracks by altering accounts.

In most dental practices, the receptionist receives patient encounter forms from the doctor, collects what's due from patients at the end of each visit, and opens the daily mail containing payments.

A strong recommendation I make to the dentists I consult with is to use patient encounter forms tracked by the practice management system. At the end of each patient visit, the practitioner uses the form to list services rendered, then returns it to the front desk. The receptionist then completes the form, handing the patient a receipt for treatment and/or payment.

No patient should be seen without an encounter form, and the forms should be handled by an employee who doesn't have access to cash. At the close of each day, a bookkeeper or the doctor should double-check the forms, making sure that all patient charges are properly entered into the billing system. The practice management system should identify patients

checked in as their encounter forms are created, and identify those who have not checked in by the end of the day. This procedure also helps to foil any temptation to destroy an encounter form if a patient pays in cash.

Besides making it difficult for the dishonest, encounter forms help the practice to track missed appointments, as well as process "no-show" charges to patient accounts.

Tighter controls

Another approach is to compare the daily journal or day sheet with the appointment book to determine which patients showed up and which didn't, so as to capture patient charges that are inadvertently, or purposely, eliminated from the day's activity.

Yet another safeguard I recommend is the preparation of daily bank deposit slips for all funds collected, whether or not they're taken to the bank that day. This simplifies the reconciliation between patient account records and bank deposits. Cash received for the day can be compared against the bank deposit slip. If the deposit doesn't match the total of patient payments posted for the day, it's time to investigate.

Alarm bells should also go off if there's a lack of cash in your daily

deposits. It's not too uncommon for patients to make their \$10 or \$20 insurance co-pays in cash. For example, many older people especially like to pay cash for services rendered.

That currency piling up in a drawer can be a great temptation for an employee who has a personal cash flow problem. Pilfering from a practice cash drawer can be simple to do, especially if a check-and-balance system is not in place in your practice. All "Ralph" has to do is slip \$20 out of the daily cash collection, then carefully make an adjustment to a patient's account so it balances out there, before the daily deposit is completed. The odds of being caught are low.

And while this kind of infrequent thievery may go unnoticed, a dark side of human nature, in the form of greed, often emerges. If it's been easy to steal small amounts, "Ralph" may start upping the ante by taking more out of daily cash income. And that's typically when the aforementioned alarm should ring loudly.

If you suspect this may be happening in your practice, the best way to prove or disprove that notion is by secretly slipping a \$10 or \$20 bill into the cash drawer. An honest employee will notify you of the discrepancy when the daily balance is done. If that doesn't occur, repeat the experiment once a month for a three-to-four month period. If silence ensues, it's time to call for expert assistance.

And if you haven't set up any bookkeeping safeguards in your practice, consider bringing in an accountant to help ASAP. Keeping a tighter rein on your financial system is well worth the investment.

Without effective accounting controls in place, dishonest staffers can find many ways to embezzle funds from a practice, including:

- billing insurance companies for nonexistent patients or procedures;
- recording insurance checks in partial payment, then posting a balance adjustment off the books to conceal the fact that the patient has paid the difference;
- collecting payment on a doubtful account, keeping the cash, then

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Red Flags!

One of our dentist clients had a receptionist/billing clerk who was also a close friend of his family. They socialized together and even went to the same church. By the time the red flags in his accounts were picked up during a fiscal examination, \$220,000 had been embezzled by this so-called "friend."

It pays to be alert to the following warning signs:

- slipshod bookkeeping practices;
- missing petty cash, past-due bills, or late vendor payments;
- low collection percentage;
- a bookkeeper who offers contradictory information;
- a high rate of errors and/or corrections;
- lack of ethical conduct/integrity in non-office matters;
- family problems;
- changes in lifestyle: new car, expensive clothing or jewelry;
- requests for salary advances;
- attempts to establish a close, social relationship with you or your family;
- employees who won't take vacations or have others assist in office duties.

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writing off the patient receivable as uncollectible;

- writing checks against the practice account to pay personal bills (easier to do now that most banks don't routinely send back cancelled checks with statements);

- altering accounts to falsely reflect collection of funds that are actually embezzled;

- purposely failing to post cash payments, and pocketing the money instead;

- writing checks to themselves, but noting bogus practice vendors on check stubs.

Facts, not suspicions

Bringing in an accountant can help in other ways, too. For instance, I was once contacted by legal authorities who suspected a client's front desk person of committing insurance fraud by billing for nonexistent procedures. An investigation was inconclusive, and the employee — suspicious that the authorities might be on to her — left the practice of her own accord.

About a year later, I consulted with a dentist who'd just launched a new practice. His first employee? You guessed it: the same woman who'd been under investigation for insurance fraud. Although she hadn't been employed there long enough to have engaged in much dishonesty, I suggested that the doctor might want to keep a close eye on her.

It wasn't long before he built a case to let her go for another reason. Interestingly, on the day she left, a patient came in asking why he'd received a second bill from the office when he'd already paid his account in full, and had the receipt to prove it. The employee had never posted the payment to his account. An investigation of office records revealed that she had begun stealing from the practice. And that led to her arrest for theft.

A cautionary note, however: Never accuse an employee of dishonesty without the facts to back

That currency piling up in a drawer can be a great temptation for an employee who has a personal cash flow problem.

Pilfering from a practice cash drawer can be simple to do...

you up. One doctor who's a client of our firm accused an employee of theft in front of co-workers and patients. The accused person successfully sued him for slander, and received a generous settlement.

Critical safeguards

To help prevent embezzlement, you need to establish critical safeguards and controls in your office. Establish them as formal procedures in your office, and make sure the procedures are followed.

For instance, the doctor or accountant should receive the bank statement unopened, and the doctor or accountant should prepare the bank reconciliation. Likewise, the doctor should review and sign all checks. Here are some additional tips:

- the person opening the mail should be a different person than the one who is posting payments;

- a deposit slip should be prepared each day listing patient/payer names;

- make sure the receipts posted to the daily journal match the bank deposit slip;

- require and verify balancing of the daily journal;

- use sequentially numbered encounter forms for each patient;

- record form numbers in the daily journal and account for each number;

- compare your appointment book with the daily journal at end of each day;

- compare adjustments and write-offs to insurance check vouchers or explanation of benefit forms;

- eliminate the ability of accounting software to delete entries without leaving an audit trail;

- occasionally slip cash into the till without the front desk person's

knowledge in order to test the integrity of the person balancing the cash drawer each day;

- consider bonding your employees;

- include a section about embezzlement and its consequences in your practice personnel manual.

Background checks

One of the best ways to reduce your vulnerability to employee dishonesty is the action you take upfront, *before* hiring someone new to your practice.

A Rehmann Group subsidiary, Kerby, Bailey and Associates, a professional investigation and security consulting firm, emphasizes that while the application and interview process provides information on an individual, it doesn't always offer a complete picture. Before making a decision to hire a particular individual, ask yourself: Is the person qualified for the position? What is the applicant's reputation? In other words, how is she or he viewed by peers? Has the applicant been convicted of a felony or misdemeanor? Has the applicant filed a civil lawsuit against a previous employer or has he/she been named as a defendant in a lawsuit? Is the applicant fiscally responsible?

Our security consulting firm says it's actually more common than you may think for job applicants to embellish their résumés. The most frequently exaggerated items are job skills, former employers, job titles, salaries, employment dates, schools attended and grade point averages.

Most practitioners I know typically rely on just an interview, and perhaps making a call or two to references listed on a job application,

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before making a hiring decision. Yet, in-depth contact with references can offer valuable insight into how your applicant is truly viewed, especially by former employers. References not only provide information about an applicant's skills and abilities, but they could also provide other details. For instance: Is the applicant a team-player? Does she work well with others? Does she have an easy rapport with patients? References are good sources to help confirm your feelings about an applicant.

If the individual you're going to hire will handle practice finances, it may be a good idea to conduct a pre-employment background investigation that includes criminal and civil record searches. These searches can be conducted at the county, state, and federal levels, and reveal whether or not your applicants have been convicted of a crime, sued their former employers, or have had judgments issued against

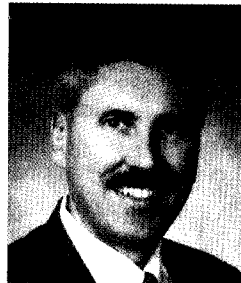
them for large amounts of money. According to Kerby, Bailey and Associates, such background checks amount to very inexpensive insurance.

Finally, a word of caution about identify theft. By taking proper precautions with your hiring procedures and internal financial controls, you can reduce the chances of you or your patients becoming victims of this growing problem.

Ted Keniston, director of information risk management for the Rehmann Group, points out that background checks are even more essential nowadays because of the menace of identify theft. Unsavory characters, he notes, are willing to pay thousands of

dollars for a valid and active Social Security number. An employee who's under financial duress and has access to your bank account numbers or patient records could be especially prone to leaking private information. Even more troubling are "professionals" who purposely seek jobs that give them access to vital financial information in order to fleece others.

In conclusion, it pays to be aware of the possibility of embezzlement. Sadly, it's more common than you think. Make sure you protect yourself and establish policies and procedures that help reduce your risk of being a victim. Because — it *could* happen to you! ♦



About the Author

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