

How to Ensure your Practice is Not a Victim of Embezzlement

Studies show that over a five-year period, over 80% of medical practices will be the victim of embezzlement. Embezzlement starts small, and when not caught, emboldens the embezzler to take it to the next level. Often, hundreds of thousands of dollars have been stolen before the embezzlement has been discovered. As a business owner, physicians must be involved in every aspect of their company, but many delegate financial tasks to employees. This type of management style makes a practice easy prey.

Separation of duties is the first step, but more importantly, owners must diligently manage and monitor financial transactions. Daily balancing is a must. Monies collected (EFTs, copays, checks, cash, etc.) must

balance to monies posted, and both must balance with the daily deposit. Monthly bank statements must be balanced back to the daily balance sheets to ensure money wasn't taken from the deposit by the employee depositing the funds. Your accountant can help set up policies and procedures to help you guard against embezzlement.

Here are tips to minimize or prevent embezzlement in your practice:

- Do not allow one employee to be in control of all financial transactions. (e.g. Do not let the same employee who collects payments prepare and take the deposits to the bank)
- Create strict management requirements regarding financial controls
- Always perform background checks on new employees. Check with employee's references.
- Use a lockbox for petty cash and deposit cash daily
- Make sure all transactions are recorded at the time the transaction takes place
- Separate employees' duties and cross-train employees
- Limit signature authority on checkbook
- Enforce regular work hours and do not allow employees to take financial work home with them
- Perform an internal audit monthly by checking bank statements for any discrepancies
- Implement daily balancing procedures
- Have an annual audit performed by a CPA or an outside management consultant

Examples of Embezzlement Methods

- Taking cash payments and not posting them to the patient's account
- Producing fake receipts to patient for payment made
- Including an extra check in a sheaf of checks for a doctor to sign
- Issuing a refund check to a fake patient



- Creating an extra paycheck by using a stamp of physician's signature
- Paying a bill twice and pocketing the resulting refund

Types of Employees to be Aware of:

- Overly loyal employee
 - Does not take vacations so no one else performs her duties and discovers the fraud
 - Constantly working overtime and is never absent
 - Takes accounting work home
- Employee's with lifestyle changes
 - Over-spending in relation to salary
 - Deteriorating financial condition
 - Showing emotional stress
 - Employee openly resents the doctor's income
 - Abruptly changing spending patterns
- Controlling Employee
 - Does not like their work to be overseen or financial controls
 - Often "forgets" to post payments

Warning Signs:

- Accounts receivable significantly increases and the collection ratio decreases
- Physician is writing checks to a new supplier they've never met
- An employee who handles financials quits or disappears suddenly without an explanation
- Missing documents, invoices, or payments
- Overdue notices from suppliers or vendors
- Unusual patterns in bank deposit statements
- Large gaps in accounting records
- Unusual shortages of petty cash and supplies

References

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