

Preventing Employee Theft & Embezzlement

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Vital Questions

- ▶ How common is theft in medical practices?
- ▶ What are the greatest areas of vulnerability?
- ▶ How and WHY do honest people steal?
- ▶ How do you assess potential employees?
- ▶ How can you reduce the risk?
- ▶ What should you be looking for?
- ▶ What can you change today?

How common is theft in medical practices?

- ▶ Medical practices lose \$25B annually.⁽¹⁾
- ▶ Practices lose an average of 5%-10% of revenue to fraud each year.⁽¹⁾
- ▶ 86% of perpetrators are first time offenders.⁽¹⁾
- ▶ MGMA study of 945 practices found 83% (782) practices had been victims of employee theft.⁽²⁾
- ▶ 3 of the 4 practices with a loss of \$100,000 or more were from groups with less than 10 physicians.

⁽¹⁾ Association of Certified Fraud Examiners (ACFE)
⁽²⁾ Medical Group Management Association (MGMA)

Greatest Areas of Vulnerability

Petty Cash

Noncash

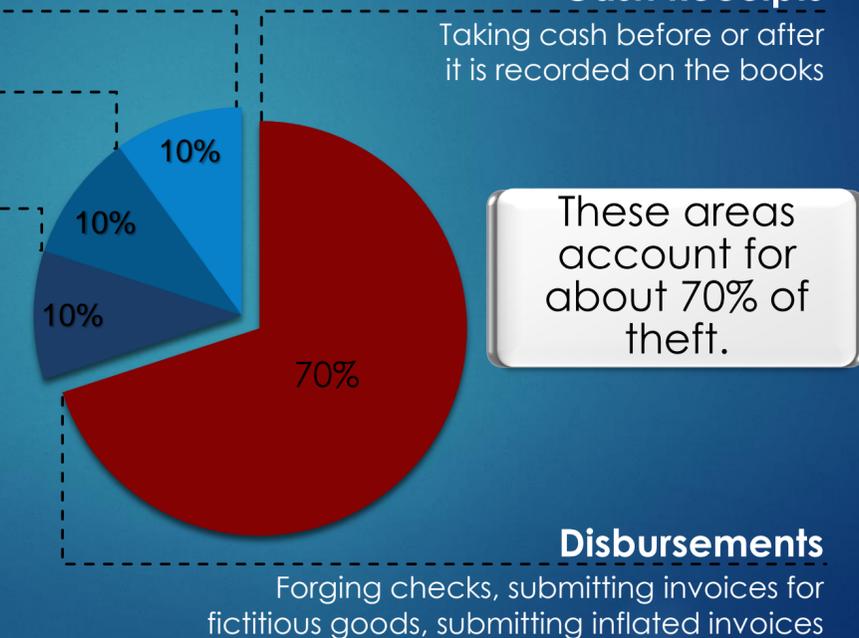
Supplies or equipment

Payroll

Creating a fictitious employee, unauthorized bonuses or inflated pay rate

Cash Receipts

Taking cash before or after it is recorded on the books



These areas account for about 70% of theft.

Disbursements

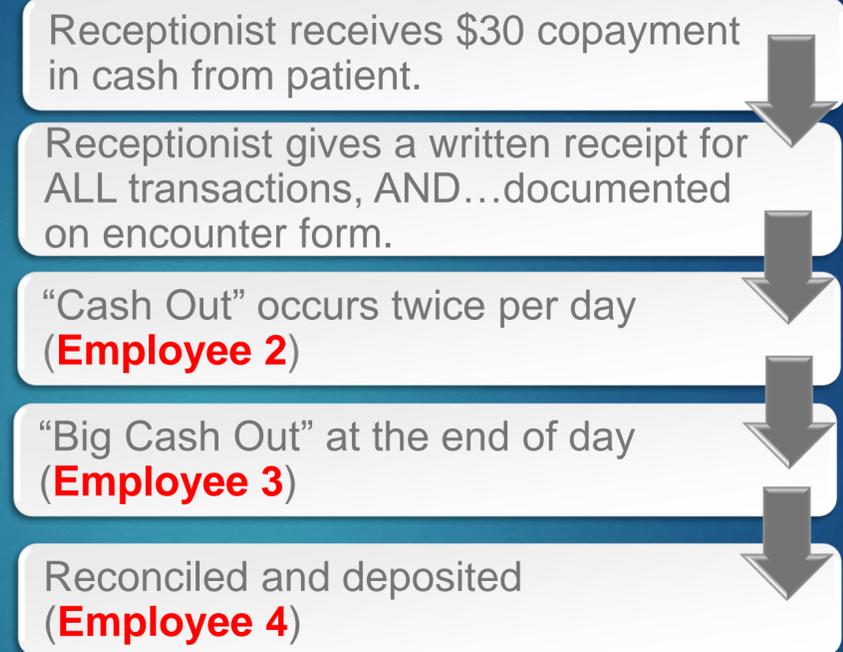
Forging checks, submitting invoices for fictitious goods, submitting inflated invoices

Case Study #1: Pocketing Copayments



Case Study #1: Pocketing Copayments

What was missing?

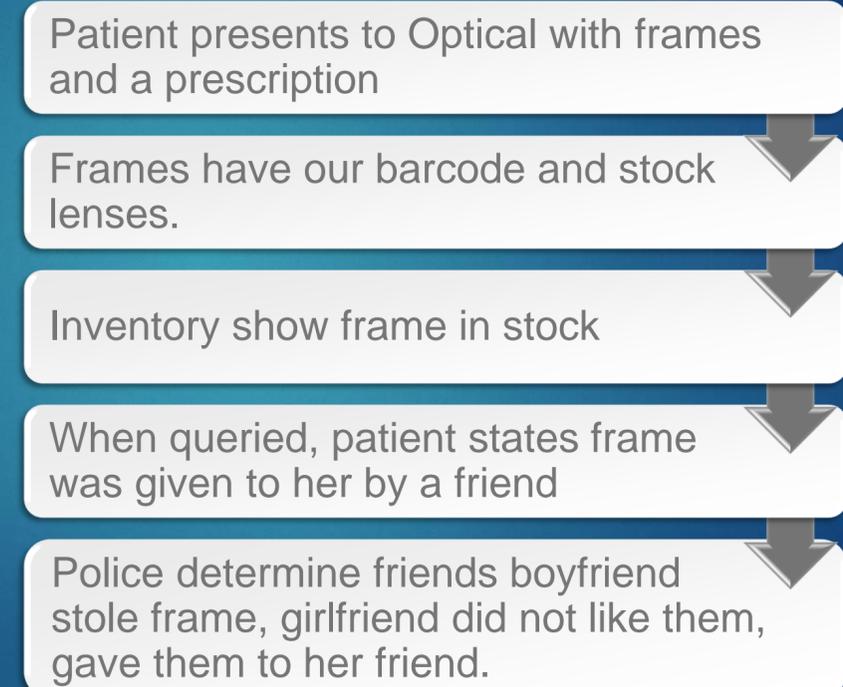


Pocketing Copays

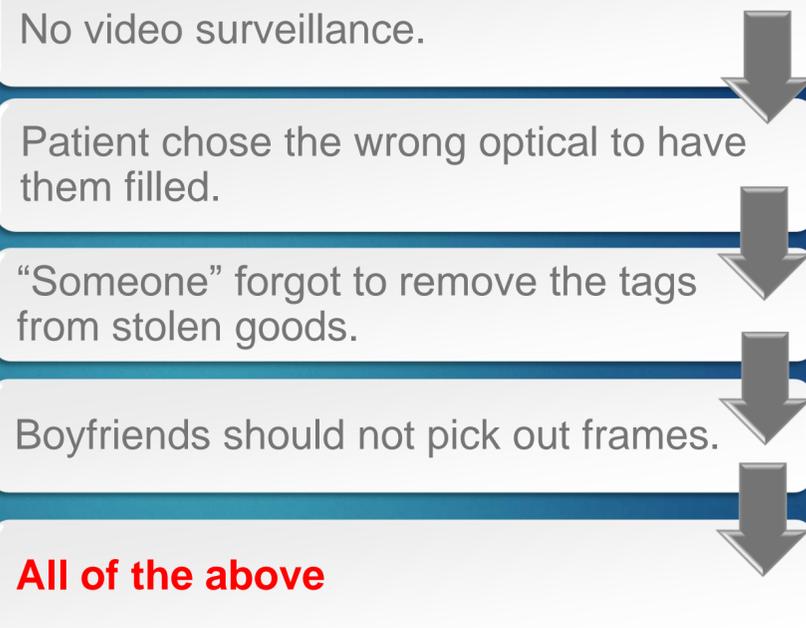
Referred to law enforcement?

- ▶ Referred 61% of the time, not referred 39% of the time
- ▶ Why not?
 - ▶ Bad PR
 - ▶ Handled internally
 - ▶ Private Settlement
 - ▶ Too Costly
 - ▶ Lack of Evidence
 - ▶ Civil Suit
 - ▶ Perpetrator Disappeared
 - ▶ Nothing recovered 58% of the time

Case Study #2: Frames needing lenses



Case Study #2: Frames needing lenses What was missing?



Payments Received in the Mail

How are your insurance and patient payments received?

- Post office box
- Delivery to the office
- Electronic Deposit
- Lock Box

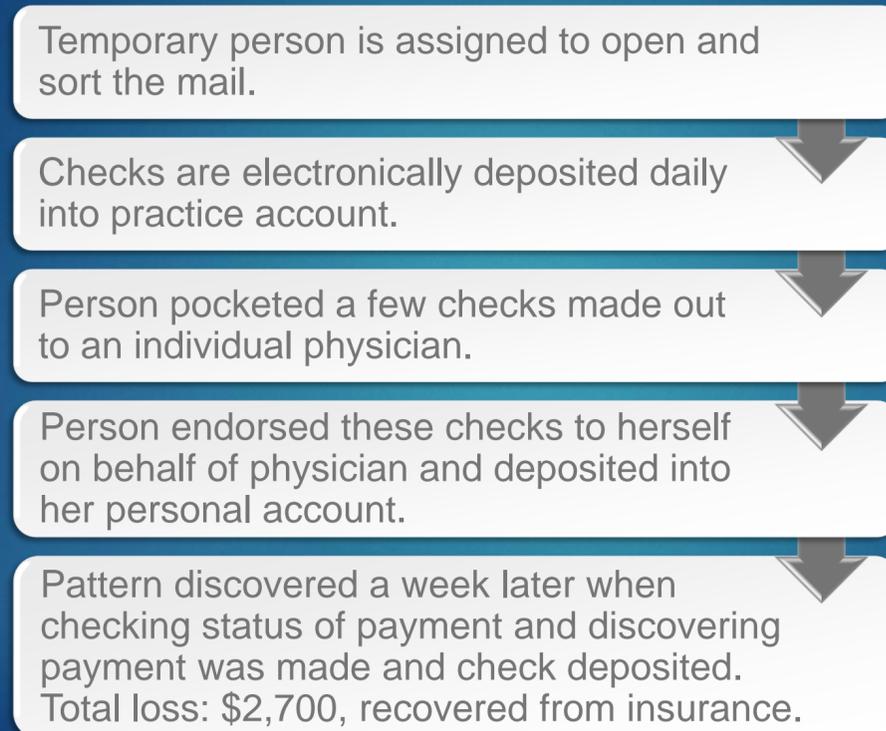


Checks should be endorsed and totaled upon receipt.

This should be a two person job.

Deposit slip to bank must match total.

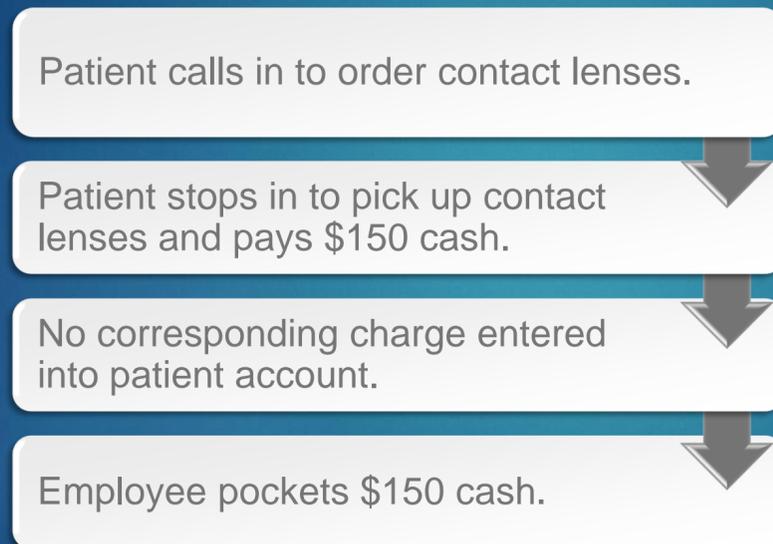
Case Study #3: Opening the Mail



Case Study #3: Opening the Mail What was Missing?

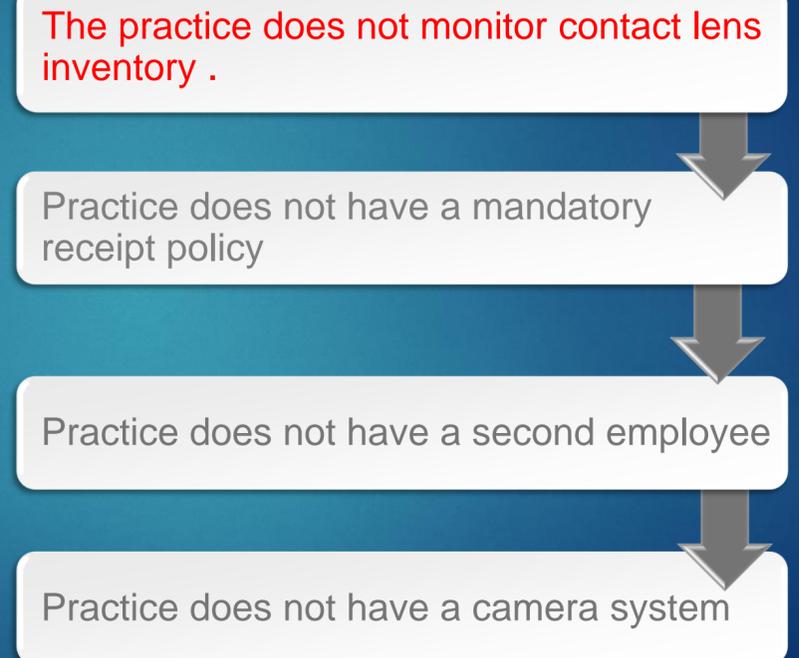


Case Study #4: Pocketing Cash from Orders



Case Study #4: Pocketing Cash from Orders

What was missing?



How and why do *honest* people steal?

Rule of thumb among forensic accountants and auditors:

10-10-80 Rule: 10% of employees will always steal, 10% will never steal, 80% will steal under the right set of circumstances.

Right set of circumstances for *honest* people to steal:

- 1. Financial pressure:** Could be an addiction, loss of household income, medical bills, debt, accident, or greed.
- 2. Rationalization:** Begins with “just borrowing.”
- 3. Opportunity:** Perception of borrowing or stealing without getting caught.

How to Assess Potential Employees

⚠ The Challenge:

- 86% of perpetrators were terminated⁽¹⁾
- 62% were not prosecuted⁽¹⁾

✅ The Solution: All potential employees must be screened:

- Verify past employment and references
- Check criminal history
- Check civil history
- Driver license violations
- **Credit checks** (76% of practices *did not* perform credit checks⁽¹⁾)

⁽¹⁾ MGMA Study

Use of Credit Information

As of 2015, Eleven states limit employers' use of credit information:

- California
- Colorado
- Connecticut
- Delaware
- Hawaii
- Illinois
- Maryland
- Nevada
- Oregon
- Vermont
- Washington

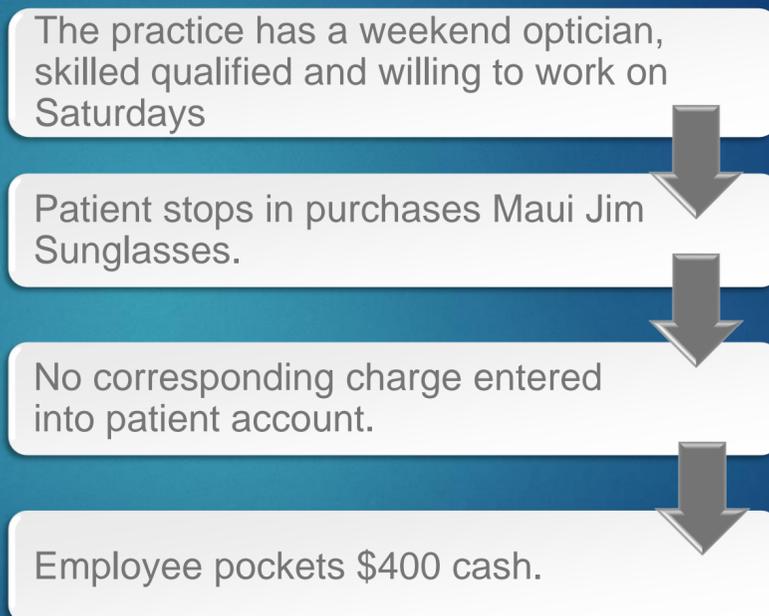


Contact your state department of labor before conducting credit checks on potential employees.

How to Mitigate Risk: Trust but Verify

1. Screen job applicants thoroughly.
2. Assess high-risk areas: co-pays, mail receipts, disbursements, patient refunds, payroll.
3. Segregate duties.
4. Conduct unscheduled audits: create a perception of detection by monitoring processes and testing compliance.
5. Be alert to disgruntled or stressed employees, also those whose lifestyle seems beyond their means.
6. Implement strong accounting controls with proper checks/balances. Consider annual outside audit.

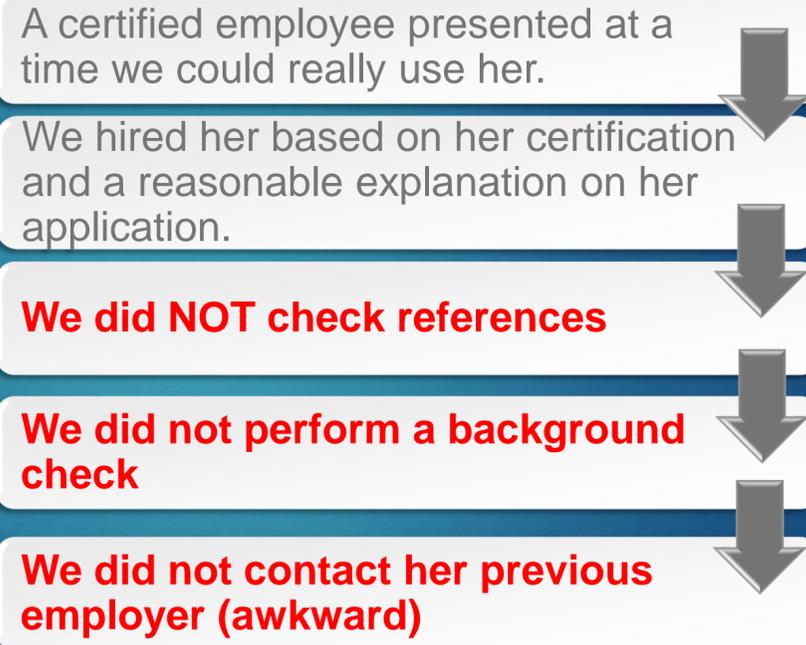
Case Study #5: The Weekend Optician



Case Study #5 Continued: The Weekend Optician



Case Study #5: The Weekend Optician What was missing?



An Ounce of Prevention ...

- Require that deposits must be made daily.
- Assign different people to open and close the office.
- Implement automated inventory controls.
- Observe/investigate territorial behavior.
- Check all refunds with PO Box addresses.

An Ounce of Prevention ...

- Honesty starts at the top.... Set the right atmosphere.
- We wary of employees who NEVER take time off.
- Watch COGS carefully.
- Change protocols periodically.

An Ounce of Prevention



Characteristics of Embezzlers..

- ▶ Know “Who is the typical thief?”
 - ▶ A long time employee
 - ▶ Has the full trust of the doctor and is a devoted employee

Guidance from the FDIC

“Such a policy is considered an important internal safeguard largely because of the fact that perpetration of an embezzlement of any substantial size usually requires the constant presence of the embezzler in order to manipulate records, respond to inquiries from customers or other employees, and otherwise prevent detection. It is important for examiners and bank management to recognize that the benefits of this policy may be substantially, if not totally, eroded if the duties performed by an absent individual are not assumed by someone else.”

Characteristics of Embezzlers..

What characteristics should alert you?

- ▶ This person never takes a vacation
- ▶ They are very protective of their job
- ▶ Work many hours of overtime, often alone
- ▶ Never cross-trains a substitute
- ▶ The doctor often depends on this person in office emergencies
- ▶ Usually living beyond their means
- ▶ Lifestyle and behavioral changes

Case Study #6 – Mainely Payroll Don't forget the “outside threat”

Father, son sentenced in payroll services fraud

Maximum prison terms in tax evasion, mail charges

The Associated Press

PORTLAND — The owner of an Augusta payroll deduction company who masterminded a \$2.3 million tax fraud, and his disabled son who became its principal beneficiary were sentenced Wednesday to the longest prison terms the judge could impose.

Clifford Levesque, 55, was ordered to serve five years and 11 months, while his son, Michael, 28, received three years and one month for a series of felonies including tax evasion and mail fraud.



M. Levesque

posed to serve.

“An offense like this has more victims than even a violent crime has,” Hornby said at a hearing attended by a handful of the scores of Mainely Payroll clients whose withholding taxes were diverted by the elder Levesque for his own and his son's use.

Clifford Levesque, the owner of the now-defunct payroll services company, and his son expressed remorse and appealed for forgiveness.

“I will pay for my sins here on earth and I am sure I will pay again when I leave this earth,” the elder defendant said in a statement read by his lawyer, Karen Morgan, after he became too choked up to deliver it. “Please forgive me if you can, and please have mercy.”

had payments that were past due, clinic administrator George C. Edmondson was lulled by Levesque into thinking that nothing was amiss.

“He reassured me there was a computer glitch at the IRS and that a lot of their clients got these notices,” Edmondson said.

Like other victims, Edmondson said he “thought the world of Cliff and his wife,” whom he knew socially.

Others who addressed the court described Levesque as a good neighbor and fellow church parishioner and said their close ties made what later befell them all the more devastating.

Michael Levesque's lawyer, Thomas Connolly, detailed a pattern of “economic co-dependency” that evolved after his

Case Study #6 – Mainely Payroll Don't forget the “outside threat”

excellence »

Payroll fraud case recalls 1990s scandal

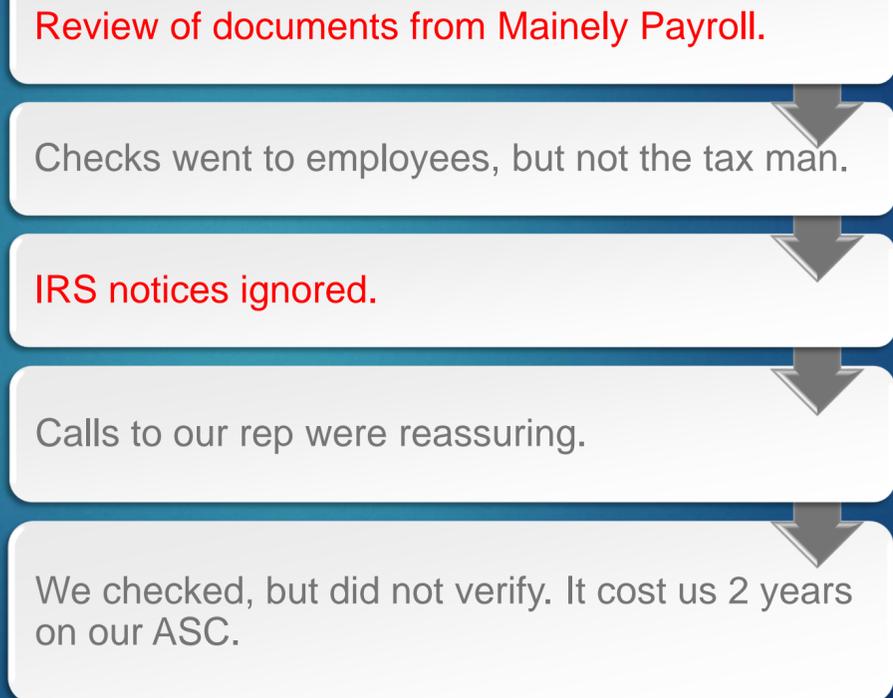
This story was published on Dec. 23, 2003 on Page A7 in all editions of the Bangor Daily News

AUGUSTA – The case of a Saco accountant accused of failing to forward client taxes to the IRS has brought back painful memories to people in central Maine who lost thousands of dollars in a payroll scam in the late 1990s.

The investigation of John Baert has left victims of the Mainely Payroll scandal and state officials wondering whether Maine has sufficient legal protections against abuses by firms that handle business payrolls and withheld taxes.

Baert, owner and operator of Harmon-Baert Associates Inc., is accused of failing to deliver \$2 million of his clients' quarterly payroll taxes to the Internal Revenue Service. He was indicted on 12 counts of mail fraud and one count of obstructing administration of the IRS.

Case Study #6: Mainely Payroll What was Missing?



CAUTION:

- ▶ Employees who have trouble managing their money may help themselves to yours!
- ▶ Every employee should take at least one week of vacation annually.
- ▶ “Indispensable” employees frequently manipulate perceptions to appear that way.
- ▶ Invest in software and monitoring equipment. It is less expensive than you may think.
- ▶ Trust your instincts!



What Should You Be Looking for?

- ▶ Payroll checks - hours not worked, vacation & sick days, salary increase, and/or “ghost” employee.
- ▶ Adjustments – with payments received and/or expense items.
- ▶ Inventory/Equipment – Selling on EBay and/or Craig’s List.
- ▶ Expense reimbursement - Non-legitimate expenses.
- ▶ Patient Payments - adjusted or not entered, and checks being cashed.
- ▶ Lapping – involves second set of books utilized in keeping track of manipulation of patient payments.
- ▶ Practice “Dummy” Account – part of checks to deposit going to a second unauthorized checking account.

What Should You Be Looking for?

- Cash payments - reduce the charge amount in the patient's record but charge the accurate amount.
- Write offs - post the charges, but keep cash.
- Checks – forge signature, use signature stamp, and/or make copies of new checks.
- Business Credit Card – Use and manipulate the statement, and/or set up an unauthorized business credit card.
- Refunds - written to fictitious patients.
- Vendor/Supplier Payments – pay vendor twice and then use refund.
- Computer – payments backdated and/or deleted.
- Vendor Payments – fake company set up by employee, or real payment is going to the employee.

What can you change today?

- Establish an “auditor” role (outside of accounting and billing departments) to reconcile practice management payment postings with bank deposits monthly.
- Scrutinize invoices and refund requests carefully and audit them intermittently.
- Appointment schedules product audit trail. Random audits on days with no shows or no charges. Follow up on missing charge entries.
- Maintain a receipt book for all cash payments.

What can you change today?

- Set up and maintain inventory control systems.
- Follow up on unpaid claims within 30 days.
- Balance funds in cash drawer and payment log daily.
- Employees ordering supplies should be different than the employee receiving or paying for them.
- Examine payroll records on a regular basis.

What can you change today?

- Delegate the responsibility for receiving checks/cash to someone other than the person who records incoming funds to the ledger.
- Monitor credit card statements.
- Consider implementing a process which requires two signatures on checks over a predetermined amount.
- Track your contact lens, frame and sunglass inventory.

Summary

- ▶ 83%+ practices have been victims of employee theft.
- ▶ 86% of perpetrators are first time offenders.
- ▶ All potential employees must be screened.
- ▶ Employees who have trouble managing their own money, may help themselves to yours!
- ▶ Segregate duties and do random checks.
- ▶ Take the time to "audit" how your system works (or doesn't work)

Trust, but Verify

Thank you!

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