Preventing Employee Theft & Embezzlement

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.

GREATEST AREAS OF VULNERABILITY

- Supplies or equipment
- Noncash
- Cash Receipts: Taking cash before or after it is recorded on the books
- Payroll: Creating a fictitious employee, unauthorized bonuses or inflated pay rate
- Petty Cash
- Disbursements: Forging checks, submitting invoices for fictitious goods, submitting inflated invoices

These areas account for about 70% of theft.

\(^1\) Association of Certified Fraud Examiners (ACFE)
\(^2\) Medical Group Management Association (MGMA)
Case Study #1: Pocketing Copayments

**Receptionist receives $30 copayment in cash from patient.**

**Receptionist writes off $30 from patient account.**

**Receptionist pockets $30 cash.**

**After $400 was taken, the theft was discovered during audit.**

**Employee reprimanded, but not terminated.**

What was missing?

- Reconciled and deposited (Employee 4)
- “Big Cash Out” at the end of day (Employee 2)
- “Cash Out” occurs twice per day (Employee 2)
- Reconciled and deposited (Employee 4)

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

* Association of Certified Fraud Examiners 2014

Case Study #2: Frames needing lenses

**Patient presents to Optical with frames and a prescription**

**Frames have our barcode and stock lenses.**

**Inventory show frame in stock**

**When queried, patient states frame was given to her by a friend**

**Police determine friends boyfriend stole frame, girlfriend did not like them, gave them to her friend.**
Case Study #2: Frames needing lenses

What was missing?

- No video surveillance.
- Patient chose the wrong optical to have them filled.
- “Someone” forgot to remove the tags from stolen goods.
- Boyfriends should not pick out frames.
- All of the above

Case Study #3: Opening the Mail

Temporary person is assigned to open and sort the mail.

- Checks are electronically deposited daily into practice account.
- Person pocketed a few checks made out to an individual physician.
- Person endorsed these checks to herself on behalf of physician and deposited into her personal account.
- Pattern discovered a week later when checking status of payment and discovering payment was made and check deposited. Total loss: $2,700, recovered from insurance.

Case Study #3: Opening the Mail

What was missing?

- Oversight of the temporary employee
- Checks are electronically deposited daily into practice account.
- Person pocketed a few checks made out to an individual physician. Lock Box not used
- Person endorsed these checks to herself on behalf of physician and deposited into her personal account.
- Pattern discovered a week later when checking status of payment and discovering payment was made and check deposited. Total loss: $2,700, recovered from insurance.

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 #4: Pocketing Cash from Orders

Patient calls in to order contact lenses.
Patient stops in to pick up contact lenses and pays $150 cash.
No corresponding charge entered into patient account.
Employee pockets $150 cash.

How and why do **honest** people steal?

**Rule of thumb among forensic accountants and auditors:**
- 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.

Case Study #4: Pocketing Cash from Orders

What was missing?

- The practice does not monitor contact lens inventory.
- Practice does not have a mandatory receipt policy.
- Practice does not have a second employee.
- Practice does not have a camera system.

How to Assess Potential Employees

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<tr>
<th>The Challenge:</th>
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<tr>
<td>86% of perpetrators were terminated&lt;sup&gt;(1)&lt;/sup&gt;</td>
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<td>62% were not prosecuted&lt;sup&gt;(1)&lt;/sup&gt;</td>
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<th>The Solution: All potential employees must be screened:</th>
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<tr>
<td>Verify past employment and references</td>
</tr>
<tr>
<td>Check criminal history</td>
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<tr>
<td>Check civil history</td>
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<tr>
<td>Driver license violations</td>
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<tr>
<td><strong>Credit checks</strong> <em>(76% of practices did not perform credit checks</em>&lt;sup&gt;(1)&lt;/sup&gt;*)</td>
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<sup>(1)</sup> 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.

Case Study #5: The Weekend Optician

The practice has a weekend optician, skilled qualified and willing to work on Saturdays.

Patient stops in purchases Maui Jim Sunglasses.

No corresponding charge entered into patient account.

Employee pockets $400 cash.

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.
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 Continued: The Weekend Optician

This was the practice BEFORE we hired her

Undercover police officer hired

Marked bills in her purse

Arrested and ordered restitution

We hire her “to do the same thing”
Case Study #5: The Weekend Optician

What was missing?

- We did not contact her previous employer (awkward)
- We did not perform a background check
- We did NOT check references
- We hired her based on her certification and a reasonable explanation on her application.

An Ounce of Prevention ...

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

An Ounce of Prevention

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

- 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

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.”

Case Study #6 – Mainely Payroll

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

Don’t forget the “outside threat”

Review of documents from Mainely Payroll.

Checks went to employees, but not the tax man.

IRS notices ignored.

Calls to our rep were reassuring.

We checked, but did not verify. It cost us 2 years on our ASC.

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.

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 was Missing?

- We checked, but did not verify. It cost us 2 years on our ASC.
- IRS notices ignored.
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Payroll fraud case recalls 1990s scandal

This story was published on Dec. 23, 2003 at 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 at a payroll scam in the late 1990s.

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

Boett, owner and operator of Harbor-Baert Associates Inc., is accused of failing to deliver 2/3 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.
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.
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