HOW TO SAFEGUARD YOUR PRACTICE FROM EMPLOYEE THEFT

Presented by:
Jill Maher, MA, COE, OCS
Senior Eye Care Business Advisor
Allergan, Inc.

Discussion Topics

- 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 employees?
- How can you mitigate risk?
- 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.\(^{(1)}\)
88% 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 <10 physicians.\(^{(2)}\)

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\(^{(1)}\) Association of Certified Fraud Examiners (ACFE)
\(^{(2)}\) Medical Group Management Association (MGMA)
**Greatest Areas of Vulnerability**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petty Cash</td>
<td>70%</td>
<td>These areas account for about 70% of theft.</td>
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<tr>
<td>Noncash</td>
<td>10%</td>
<td>Supplies or equipment</td>
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<tr>
<td>Payroll</td>
<td>10%</td>
<td>Creating a fictitious employee, unauthorized bonuses or inflated pay rate</td>
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<tr>
<td>Cash Receipts</td>
<td></td>
<td>Taking cash before or after it is recorded on the books</td>
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<tr>
<td>Disbursements</td>
<td></td>
<td>Forging checks, submitting invoices for fictitious goods, submitting inflated invoices</td>
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**Case Study: Pocketing Copayments**

- Receptionist receives $20 copayment in cash from patient.
- Receptionist writes off $20 from patient account.
- Receptionist pockets $20 cash.
- After $300 was taken, the theft was discovered during audit.
- Employee reprimanded, but not terminated.

**Payments Received in the Mail**

- How are your insurance and patient payments received?
  - Post office box
  - Electronic Deposit
  - Delivery to the office
  - Lock Box
  - Checks should be endorsed and totaled upon receipt.
  - This should be a two person job.
  - Deposit slip to bank must match total.
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.

Person endorsed these checks to herself on behalf of physician and deposited into her personal account.

Person pocketed a few checks made out to an individual physician.

Checks are electronically deposited daily into practice account.

Temporary person is assigned to open and sort the mail.

Case Study: Opening the Mail

The practice maintains a contact lens inventory. 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.

Case Study: Pocketing Cash from Orders

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
- 62% were not prosecuted

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)

Use of Credit Information

Eight states limit employers’ use of credit information:
- California
- Connecticut
- Hawaii
- Illinois
- Maryland
- 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.
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.
A Case Study: Flipping Deposits

Take cash from Day 1 and hold deposit.
Take cash from Day 2, replace cash from Day 1, hold deposit 2.
Take cash from Day 3 to cover Day 2, hold Day 3 deposit.
Take cash from Day 4 and hold deposits 3 and 4.

Caught at two months: $2,700 embezzled

Case Study: You Scratch My Back

Exchange retail products for free lunches in the cafeteria.
Exchange free lunches in the cafeteria for retail products.

Caught by surprise audit of invoices, receipts, and ledgers (after many months).
Total people involved: about 25
Total loss: unknown

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.
Watch COGS carefully.
Change protocols periodically.
An Ounce of Prevention …

- 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.
- Trust your instincts!

Case Study: Unauthorized Checks in ASC

Administrator (of 10 years) embezzled $181,000 from ASC.
- She had written 10 unauthorized checks to herself.
- Accountant could not find a $32,500 invoice to a capital equipment vendor and neither could the vendor. Other fake invoices paid along with unauthorized bonuses to herself.
- “Our big lesson: Don’t have one person writing and signing the checks, and doing the accounting.”

Accounts Receivable Management

- Authority to write off balances:
  - Limit those with that authority
  - Approval by senior management
  - Payments non zero-balance accounts can be diverted elsewhere
  - Periodic spot checks
    - Reconcile EOBs with patient accounts
Case Study: Fox Guarding the Hen House

Transition created huge billing problem.

Encouraged practice to hire friends in cash collecting positions.

Convinced the Administrator to buy new PM System.

Billing Supervisor given too much authority.

Practice Administrator with no billing experience.

Case Study: Fox Guarding the Hen House

Transition to new PM was unsuccessful and billing function was outsourced.

Continued serious cash flow problems caused the practice to hire a consultant.

Discovered no reconciliation of deposits to bank in PM system.

No oversight of Billing Supervisor.

The Consultant discovered forgery of insurance checks and theft at check-out.

Case Study: Fox Guarding the Hen House

$104,000 stolen in 6 months.

No arrest of embezzler.

Implemented background check and drug screen on all new employees.

Full recovery of forged checks.

Practice discovered previous arrest on background check.

Full recovery of forged checks.
Recovery

- Forged checks
- Electronic funds transfer
- Payments made to fake vendors
- Credit card purchases
- Restitution

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.

An ounce of prevention is worth a pound of cure

Thank You!