

# How to Reduce the Risk of Theft and Embezzlement in Your Practice

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As the economy continues to struggle, theft and embezzlement have been on the rise in physician based practices. There was a recent case in which an office manager of a family practice embezzled more than \$450,000 over a six year period.

## *There are generally three elements that are present in theft and embezzlement cases: Opportunity, Pressure and Rationalization*

### **Opportunity**

The opportunity to steal is just too great for some people to resist. Types of things that increase this opportunity are physicians not engaged in the day to day business, large amount of daily transactions (including cash) and practices that tend to have a “trusted, loyal” employee who no one would suspect. Perhaps the biggest opportunity to steal involves a weakness in internal controls.

### **Pressure**

Mounting debt or living beyond one’s mean can add pressure to steal. Maybe a spouse has lost their job. Also, drug, gambling, and other addictions can be a factor in someone deciding to steal.

### **Rationalization**

People generally will rationalize their reasons for theft. An employee may say to themselves, “I deserve a raise; so I am going to give myself one!” or “I am only borrowing the money and I’ll pay it back.”

## *Some ways theft and embezzlement occurs*

There are numerous ways in which employees steal from a practice. It can be in the form of cash, property or even data.

Below are a few common ways that employees can steal from a practice:

### **Recording of patient pays**

One common scheme is that the employee will not record the patient cash pay or may only record part of it. The money is then pocketed by the employee and the account in the practice management system is adjusted to show a zero balance due. Another scheme involves an employee opening a bank account with a similar name as the practice and depositing the payments in the fraudulent account for their own use.

### **Payments made to vendors**

Phony vendors are setup and the payments are actually deposited in into the employee’s bank account. Another scheme involving vendors is that the vendor is overpaid and the employee receives a kickback.

### **Credit Card and Identity Theft**

Employees who have access to a patient’s credit card and social security number can steal this information and sell it to a third party.

## *How can a practice mitigate the risk of theft and embezzlement?*

The first thing a practice can do is look for red flags or warning signs that point to potential improprieties. Some common things to look out for include:

- Employee who never takes a vacation.
- An employee who is clearly living beyond their means.
- An increase in patient complaints regarding billing errors.

Some specific ways a practice can mitigate the risk of theft and embezzlement include:

1. For any potential new hires have a background check performed that includes state criminal records, social

security number check and national felony searches. You may also want to consider a credit check for employees who handle money or other fiscal related duties.

2. Perform daily reconciliation of bank deposits against receipts in the billing system; then monthly reconciliation against bank statements and the accounting system.
3. Conduct periodic surprise audits using an outside accounting or consulting firm.
4. Consider outsourcing the billing and collections functions as a reputable firm should have strong internal controls in place.
5. Performance monitoring – monitor billing and collections activity and review key performance indicators such as collections ratios, days in A/R, refund activity, denial rates, and patient volumes.
6. One of the most important things a practice can do is implement segregation of duties wherever possible. For example, one employee may open and endorse checks while the bank deposit is prepared by someone else. The bottom line is to never have one person in complete control over the receipt, disbursement and recording of cash and related transactions.

***Mark Divino, CFO of NBP, LLC has over 20 years of accounting and finance experience with over ten years in healthcare. Mr. Divino is a CPA and earned his B.S. degree in Accounting from the University of Nevada, Las Vegas and an M.B.A. from the University of Florida.***