



Where Is the Money?

Addressing embezzlement, from disappearing pens to insurance fraud, is essential.

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Embezzlement—This Could Happen to You!

Time is Money. It's a well-known phrase. To coin another saying, *Money is Money.* Hard-earned, it is a shame to simply allow

your money to be taken from you. In this month's column, we examine embezzlement, including all forms of monetary theft, within a medical practice. More specifically we address who is stealing money and how to stop them.

Reliable statistics regarding theft in medical practices are difficult to come by, in part, because practices are reluctant to admit that they have been swindled. In other instances, a nondisclosure agreement or other limitation from legal proceedings may prevent a practice from sharing what happened publicly. It is thought that approximately 75% of physicians

will experience some type of theft.¹⁻³ Although estimates vary widely, it is thought that embezzlement costs approximately 10% of revenues. This is unacceptable. Even more modest losses mean less take-home pay for the physicians, smaller raises for the staff, and even potential bankruptcy. A larger scheme can devastate a practice for years.

Many practices—large and small—have experienced embezzlement, skimming, and theft of office supplies and equipment. If it hasn't happened to you, be on guard or it will. If it has, make sure it doesn't happen again. Hard-won knowledge about how to avoid theft, methods for catching the perpetrators, and simple steps to avoid the misery are available.

Sadly, there are more methods of stealing than can be covered in 1 article (Table). As with most of our topics, we have additional material at www.smartbusinessgreatmedicine.com. We also welcome your stories about the ways that you (or a

TABLE. EMBEZZLEMENT TYPES AND SOLUTIONS

Types of embezzlement	Approaches to prevention
<ul style="list-style-type: none"> • Supply theft • Pocketing petty cash • Overstating hours • Inappropriate overtime • Inappropriate use of credit cards • Writing checks on your behalf • Stealing copays • Altering procedure codes and manipulating accounts receivable • Submitting claims for fictitious medical services in their name • Setting up false bank accounts in a name similar to that of the practice • Payroll alterations (raises) • Payroll schemes with fictitious employees • Payroll deduction schemes • Giving bonuses • Identity theft of physician, staff, patient • Creating shell companies • Tax diversion • And the list goes on 	<ul style="list-style-type: none"> • Detailed background checks (keeping in mind embezzlers usually have no record of criminal activity) • Drug testing for all employees regardless of prior relationships with employees • Credit checks on any employees, especially those with access to money • Creating and following financial security policies and procedures • All bills/envelopes should be opened by practice owners or a 2-member team should be used to open and process the mail • Consider having all bills and bank statements sent to a post office box to avoid tampering • Monitor cash payments and have someone who doesn't collect cash reconcile the cash drawer daily • Monitor vacations • Separate accounting from all cash collection, bill-paying, insurance coding, and other financial duties • Monitor employees for behavior changes • Consider video monitoring • A zero-tolerance policy on theft—perpetrators will be terminated immediately. Make sure employees are aware of this rule. • Report all crimes to law enforcement and press charges when possible—don't let others suffer your fate and send a message at the same time



friend) were scammed or, perhaps more importantly, how you thwarted an attempt. Sharing your experiences can help save someone else that headache.

Trust and Verify

As shown in Case Study 1, the same attributes that make someone a great employee may also provide a dishonest employee with opportunity. We have to trust our employees to do their jobs. This doesn't mean we shouldn't monitor them. Trust but verify!

Preventive Medicine

Treating an illness is good medicine. Preventing illness is great medicine. We need to specialize in preventing embezzlement. Although it is neither simple nor easy, it is vital. A comprehensive strategy should employ most, if not all of the elements listed in the Table. Several other special-

▶▶▶ Case Study 1: MJ Sounds Like a Perfect Employee

MJ has worked with the practice for more than 15 years, managing the back-office and the bookkeeping. Not only is he a valued and trusted member of the staff, he is also the senior partner's brother-in-law. He is dependable, gets his work done, and is ready to chip in when others need help. In fact, MJ rarely takes more than a few days off. Everyone agrees that they don't know how they could get along without him.

MJ sounds like a perfect employee, and that may be true. There are, however, some serious red flags present in this—all too real—story. A trusted employee and a family member can gain ever-increasing amounts of control over almost any office process and game it to their advantage. Rarely taking days off can mean commitment; it can also mean a need for control and secrecy.

In MJ's case, what appeared as dedication to the practice was indeed a need to prevent others from seeing his actions. He had created several shell companies and was diverting payments to these for apparently legitimate purposes. The amounts were within reason, and the system had been in place for so many years that no one even thought to question it.

The scheme fell apart in this instance only when MJ needed surgery and another person had to complete the bookkeeping duties. Suddenly, there were no invoices from these shell companies. When the books from several years' past were audited, the practice found that MJ had embezzled over \$700,000. Although his scheme was thwarted, the challenge of dealing with the legal aspects and the interpersonal conflict related to it was just beginning.

ized and customized tactics may be required in certain circumstances. None necessarily make embezzlement impossible, but having preventive measures in place does radically increase the difficulty of committing the crime and the likelihood of being detected sooner rather than later.

All of the bills should be reviewed by the supervising partner. Ideally, this individual should even open the mail to limit the potential for someone slipping in fraudulent bills. A robust active and forward-looking forensic accounting procedure should be in place to monitor and separate components of the process. The backbone of this process is a good set of standard accounting procedures combined with preventive procedures.⁴ True forensic accounting combines accounting and investigative techniques to expose financial crimes. The forensic accounting process also yields evidence and enables a full explanation of a crime to the legal authorities. If a potentially dishonest individual doesn't control the entire process, it becomes much more challenging to game the system. When at all possible, don't hire family members for these sensitive roles. When something goes wrong, it is easier to overlook and far more difficult to manage appropriately.

As Case Study 2 shows, handling cash creates higher risk and the situation described is likely far more common than we would ever want to admit. Smaller cases, taking only a little here or there, can be very challenging to identify. There is no one-size-fits-all approach, but there are some basic tenets. The protocols used for accepting copays and logging their entry must be well designed. No single employee should have full control of any aspect of the process. In the rare cases that

▶▶▶ Case Study 2: PR Works the Front Desk

PR works the front desk. She checks people in and collects copays at a geriatrics office. She is always pleasant, and the patients love her. She is one of the least well-compensated people in the office and has hundreds of dollars pass through her hands every day. As a single mom, she has trouble making ends meet. The opportunity to justify giving oneself a little extra cash that no one will miss can be overwhelming. At first, PR would overcharge a deductible slightly. Then, she would write off a copay. Before she knew it, she was doubling her salary. Even so, this amount was easily overlooked in the financial noise of a busy practice. Eventually, the scheme was uncovered when the practice had an outside audit for a different problem. Although PR was fired and restitution was ordered, the practice was never repaid the amounts stolen. In most cases, the practice gets no restitution and if it does, it may only recoup a fraction of what was taken. Even worse is that the impact on morale and trust will linger for years.



this is necessary, resorting to video monitoring of the transactions may be necessary. We cover many of these measures in depth at www.smartbusinessgreatmedicine.com.

Why Are Medical Practices at Risk?

Why does it happen? In most cases, it happens because we let it. If you don't take simple preventive measures, you are inviting a problem. Why should the financial health of your practice be any different from the health of a patient?

Physicians are rarely businesspeople. They are typically not trained for this aspect of the job. In fact, medical training almost seems to frown on having a medical student or resident learn the necessary business skills. The system has failed us, and we have failed ourselves. We must educate ourselves in these areas and learn to use reliable and truly helpful consultants and contract support.

Sadly, even physicians who have gone back for an MBA often don't have the real-world experience needed to successfully run a practice. It's not impossible. It just takes the right methodical approach. In far too many cases, physicians simply don't hire well. They or their office managers hire someone they know or a member of the family. When the individual already has a trusted status, it is easy to skip the basic background checks, or skimp on adequate oversight, or find excuses for items on The Red Flag List.

The practice of medicine is busy and hectic. With the growing mountain of requirements heaped upon the physician, the daily tasks of overseeing the business are relegated to when there is time. With this approach, it will simply

never be done. We must make the financial health and the business of medicine a central core feature of our practices. If you go out of business or burn out, you certainly can't take care of your patients no matter how good a doctor you are.

Physician owners, administrators, and managers frequently ignore employee attitudes about the work environment and compensation. The practice may have a low pay scale or compensate handsomely. In either case, a complacent practice can become a victim. People talk. If salaries are low, the staff will know. If salaries are high, the staff may still believe they could be getting more. This creates potential rationalizations that stealing is reasonable. We should compensate our staff reasonably and reward effort. We should also continue to monitor every opportunity to catch the dishonest few who hurt us all.

Practice size doesn't protect from theft, though it may change the mechanism being used. Every practice is at risk. Smaller practices may be at higher risk because a single employee will likely have more opportunity. Larger practices can have more oversight but usually have more money at risk.

When It Happens

Most physicians and practices who experience embezzlement never saw it coming. Having preventive measures and policies in place means that if and when it does go wrong, you are less likely to be a paralyzed victim and can take action. When prevention fails, we need to react swiftly and decisively to limit losses. Conversely, it is important not to

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THE RED FLAG LIST

Characteristics of Employees at Risk for Embezzlement

-  Has access to multiple components of a financial process
-  Is trusted
-  Is a family member of the practice owners
-  Lives beyond their means
-  Is experiencing deteriorating financial conditions (eg, spouse laid off)
-  Has a history of gambling, other financial difficulties
-  Has an unusually close association with vendor or customer
-  Is known as a control "freak"
-  Is unwilling to share duties
-  Works excessive overtime, is seldom absent, or takes work home (especially accounting)
-  Arrives early or stays late on a regular basis
-  Resents oversight or new financial controls
-  Always has an excuse
-  "Forgets" or is lax about following office procedures
-  Reports that the computer is losing information about finances or visits
-  Openly resents physician income, lifestyle, size of fees charged



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overreact and call the authorities immediately. Assess the situation and gather information. Coordinate your activities with your legal counsel and an accountant who has no direct access to the money. If bookkeeping has been supplied by your accountant's office, get outside help. Don't assume that you are the victim of a lone-wolf attack. You may be the hapless victim of a professional and coordinated scheme.

Technology and Old-Fashioned Vigilance

There are a number of pieces of technology that can help. We need all the help we can get. The electronic health record (EHR) can help insulate you from certain insurance scams. Electronic bill paying systems can help automate the payment process and provide an excellent trail. Unfortunately, these systems also represent a threat, especially if an individual has access to sensitive portions of the software. This is even more frightening if it is an individual with the power to assign passwords or user rights.

Never allow technology to replace human vigilance. A layered series of security policies and protocols only succeed when they are used regularly. The system must be multifaceted and complex but doable. Employ the system that works for you and don't be afraid to revise and upgrade as needed.

Conclusion

The stories are frightening, especially since the very traits that make for an outstanding employee are the perfect cover for a dishonest person. Build a team of good, solid individuals, compensate them well, appreciate them, and never let down your guard. ■

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