

Fraud and the Sleeping Watchdog

Thirty – fifty years of age, married with a stable family situation, above average education, professional or managerial staff level ... who does this describe? According to recent research, it describes the profile of most fraud perpetrators –those most likely to misappropriate assets from their employers, also known as occupational fraud.

White-collar crime appears to be the crime of choice of today's workforce. According to the Association of Certified Fraud Examiners, "... crime is largely a factor of age, and fraud and embezzlement are the crime of choice of the older perpetrator, so as the society ages, you have, and should continue to see, an increase in fraud and employment theft cases." Psychology experts who study fraud perpetrators tell us that three conditions need to be present before an employee will perpetrate fraud against his employer – pressure, opportunity, and rationalization.

Pressure: This is the non-sharable financial problem that motivates an employee to steal. Some examples of these pressures include:

- § Living beyond one's means
- § High personal debt
- § High medical bills
- § Substance abuse

Opportunity: Usually arising from weaknesses in internal control, opportunity is the condition that causes a perpetrator to believe that he can embezzle and that the theft will go undetected. This is usually the one element that the organization can significantly influence by strengthening weak controls.

Rationalization: Those who commit fraud can usually rationalize the embezzlement as being consistent with their own personal code of conduct. Rationalizations vary from person to person but include:

- § That they will be repaying the money
- § That they deserve more than they are being paid
- § That the Practice has plenty of money (translation: that the physicians make plenty of money)
- § That it is justified revenge for some wrong done to them by the physicians or managers
- § That it is for some "good cause"
- § That it is just "for the thrill" ... some employees get an adrenaline rush from the risk of being caught!

Occupational fraud cases always have at least one common denominator: people. Behind each case is an individual who has succumbed to some source of pressure. Although the employer has little influence over the pressures of life, it is increasingly important that they be able to recognize certain symptoms and not turn a blind eye to signs that something may be wrong.

Symptoms of, and conditions for, employee embezzlement

Some of the symptoms and situations relating to employee relationships and pressures that may cause misappropriation of assets include:

1. Anticipated future employee layoffs that may be known to the work force: the mentality that the employee “better get it while I can”.
2. Dissatisfied employees with access to assets susceptible to misappropriation (the unhappy office manager, practice administrator, billing clerk or front desk person).
3. Unexplained, unusual and observable changes in behavior of employees.
4. Office managers or practice administrators who insist on handling routine clerical tasks themselves and who refuse to take vacation.
5. Known and observable personal financial pressures affecting employees, such as calls from creditors at work, garnishments, missed child-support payments or alimony.
6. Appearance that employee is living a life-style beyond their means.
7. Other pressures and life-changing experiences in a person’s life (for example, divorce, substance abuse, or significant investment losses).

While legally and morally you should not prejudge an employee, in the best interest of the Practice, management has a responsibility to take the steps necessary to investigate any suspicions and, if necessary, take active steps to remove the person from direct access to cash.

Know the schemes

It is not always possible to identify problem employees and to take preventative steps. However, having a fundamental understanding of the more common forms of employee theft will help you formulate a strategy for subverting them. Here are a few examples:

Forging receipts: collecting copayments at the time of service and not recording on the patient’s accounts. The money is taken and the charge is later written off as an adjustment to the patient receivable. To avoid this, deposits should be reconciled daily to patient records.

Diverting collections: collecting insurance proceeds or patient payments and diverting these payments to personal bank accounts. The patient receivable is later written off as an adjustment. To watch for this, always pay close attention to patient calls regarding overcharging and inconsistencies in billing. Periodically audit the adjustments account and verify adjustments to the explanation of benefits or chart documentation.

Writing checks for personal expenses: employees with check-writing and signing authority, or that simply have access to check stock, have access to the Practice’s cash at will. Unless reviewed by management, these employees can pay personal expenses and hide these in the Practice’s general ledger. If it is not realistic to limit check signing to physicians, consider comparing cancelled checks to the check register on a random basis. Also, the individual signing checks should not also be reconciling bank accounts.

Other schemes include pocketing loose change such as petty cash or snack money, pilfering office supplies, misuse of employee expense accounts and even purchasing fraud (paying fictitious suppliers of goods and depositing the payment to their personal account).

Protect yourself

Every office needs a “watch dog” and not a sleeping one! While the majority of workers will not go out of their way to steal, the best defense is careful supervision that removes any easy opportunity. Segregation of duties, requiring accounting and billing employees to take vacations, and organized accounting records are all safeguards. Clear written policies on ethical

behavior, signed by each employee including the physicians, will raise awareness. Management's strict zero-tolerance of theft should extend to everyone in the practice.

Also, "employee awareness" programs can inform employees about theft problems and keep them on the lookout for stealing of any kind. Statistics show that 80% of employees have observed a high level of illegal or unethical conduct over the past 12 months. It is crucial to have a culture of honesty where employees know they can turn over incriminating information on anyone in the practice without fearing job loss or other repercussions.

The best way to prevent dishonest employees from stealing would be not to hire them at all! Clairvoyance isn't possible, but better attention and focus can and should be paid when hiring each employee. Practices need to develop an effective pre-employment screening process. Suggestions include:

- § Thorough background checks
- § Examination of criminal records
- § Careful checking of references
- § Drug testing (where allowed)
- § Psychological testing

Statistically, most embezzlers will have stolen from their last four employers prior to discovery, further support for the idea that due diligence is a must in the hiring process. If you do not have the time, consider outsourcing the service of performing background checks.

What to do if it happens to you

You've taken all of the right precautions in the hiring process, you've created a "culture of honesty" in your Practice, and still, an employee steals from you. More often than not, it is very difficult for a physician to accept the possibility that employees he or she hired, has trusted and works beside are capable of engaging in such disloyal and dishonest activity. When it does occur though, there are these basic steps that should be followed:

Conduct an objective and accurate investigation following these guidelines:

- § Retain an expert, such as a CPA, to assist you in the investigation and in determining whether legal counsel should be retained.
- § If the determination is to handle the matter internally, the investigation should be done by management or physicians other than the person who first noticed or reported the theft.
- § Determine whether the employee should be immediately suspended or whether the theft is best confirmed by monitoring the employee's continued actions.
- § Maintain strict confidentiality to avoid exposure to defamation.
- § Interview all witnesses individually, making a clear warning about their duty to maintain confidentiality.
- § Document all interviews and obtain the signatures of the persons interviewed.
- § At the last stage of the investigation, interview the employee suspected of theft and have a witness present. Do not make any promises regarding pursuit of remedy or legal action.

Discipline or terminate the employee.

If it is suspected that the size of the loss warrants it:

- § File a claim under your fidelity bond or employee dishonesty policy.
- § Recover your loss against third parties.
- § Obtain restitution through the criminal justice system.

Employee theft is a growing problem that can no longer be swept under the rug. Difficult for all persons involved, there is a significant emotional component, especially in a smaller business such as a healthcare practice where the person perpetrating the theft could well be a trusted and long-time employee. From the potential of significant financial losses, to the distraction caused by the investigation, the resources of the Practice will be tested. But by gaining a heightened understanding of the issue, and initiating sound loss prevention measures, much can be done to minimize both the likelihood and extent of any loss. Until you do, the watch dog will continue to sleep.

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