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## Steps to Avoid Embezzlement in Your Physician Medical Practice

Medical practice embezzlement war stories confirm the existence of clever thieves that steal from the medical practice they work for. It is devastating at both an emotional and financial level to discover a **trusted** employee has betrayed you. Don't be the victim of an embezzlement scheme that has your practice financing someone else's lifestyle. Here are some tips on how to protect your practice from an embezzlement scheme.

### Eliminate casual handling of cash

I have observed a number of practices where finances are handled casually and create temptation for future embezzlement opportunities. For example; cash is loosely kept in drawers and not reconciled to practice records before it hits the bank deposit – in fact some physicians have made a habit of taking funds from the cash drawer when it is convenient. This is a sure fire way to compromise the ability to reconcile the money.

### Follow the money yourself

Sure, you have other people handling financial transactions in most areas of the practice, but it's important for you to read those bank statements each month. This can be done on-line (or the old-fashioned paper copies) and should take less than one hour per month. Banking records reveal the truth about how the money is being spent and are a trigger-point for identifying irregularities in expenditures. I've seen reports pulled from accounting systems where payment for an expense looks legitimate, but the bank statement reveals that the large tax contribution you made was actually a check or on-line payment directed to an employee's personal bank account. You might even discover your star office manager issued herself an unauthorized bonus check or an unearned vacation check.

### Secure system-wide audit trails

Next, make sure the computer system has a proper audit trail and that the financial procedures in the practice provide sufficient oversight for financial transactions including charges, adjustments and payment on patient accounts. Your practice management system, accounting system, banking system and payroll records must provide the ability to track all transactions and identify which employee completed the transactions. It's not a matter of being suspicious; it's a matter of being smart with money.

Embezzlement can occur at many locations throughout the office. It can be at the front desk, the billing department, the payroll system, or the accounts payable. But it almost always starts small! It can begin by borrowing \$10 from the cash drawer for lunch, but if it doesn't get repaid and goes unnoticed the waters have been tested. The thief now has permission to take the next step. Assuming things are being done the right way and having **too much** trust provides an opportunity for embezzlement and may, in fact, encourage it. It's time to take notice – to get and keep your practice in protective financial order.

### Divide duties and ensure accountability

Efficiency of a medical office depends on streamlining procedures and avoiding duplication of tasks. At the same time it is important that multiple people be involved in finances, creating a separation of

duties. You don't want the person to audit the cash drawer, post the charge and payment, and take the money to the bank. Nor do you want the person who prepares the checks to be the one that reconciles the bank statement.

Create essential financial role diversity by requiring anyone handling finances to rotate out of their position for a period of at least two weeks each year. If someone has something to hide, they sure don't want someone else doing their job for two weeks. This discourages the thief, but it is not foolproof. Clever employees can sometimes find ways to outsmart the system or clean up their act during the weeks preceding their time off. Nonetheless, they know there is a chance of discovery.

Beyond having multiple people involved in financial transactions, it is equally important to have processes that ensure there is clear and appropriate documentation to support all financial transactions: money in and money out. This documentation is your audit trail. It allows the practice to spot check to ensure the financial processes are being adhered to. This is one case where duplicate efforts are a powerful financial tool.

Looking over someone's shoulder occasionally helps keep him or her stay honest. In a small practice, the doctor or an independent source such as the accountant or consultant can be the point person for accountability. A larger practice may use an independent source or have an audit committee composed of employees from various departments. Either way, a Protective Financial Review should be conducted periodically.

It is easy to understand how physicians, struggling with the decline in reimbursement, government regulations and the cost to stay afloat, fail to take the time to take a hard look at your internal financial operations. But it is an area of the practice that must not be neglected. Here are some simple rules you can put in place that will go a long way in protecting practice finances.

**Apply these twelve steps to prevent embezzlement:**

1. Pay bills on-line or use an automated check-writing system that prints checks that leave no room for alteration;
2. Use electronic remittance for payment from third party insurance companies where the service is available and have a bank drop box for receiving payments on patient accounts and insurance payments where electronic funds transfers (EFTs) are not available;
3. Audit the cash drawer daily;
4. Never borrow from the cash box (or others will);
5. Get rid of signature stamps with the same names as the signers on bank accounts;
6. Review bank statements on line or have bank statements come to the home of one of the physicians and have someone that neither writes the checks nor makes the bank deposits complete the reconciliation;
7. If a non-owner of the practice is permitted to be a signer on the bank account, limit the dollar amount approved;
8. Audit payroll records quarterly or at a minimum semi-annually to prevent potential unauthorized raises, bonuses or overtime pay;
9. Conduct complete background checks on all employees before you hire them;

10. Obtain an insurance bond for the bookkeeper and the office manager, but keep in mind that does not cover financial neglect by the practice owners;
11. Conduct occasional Protective Financial Reviews of each aspect of practice finances;
12. Listen to your instincts. If you become suspicious, start digging. If the person handling the money seems territorial and protective of his position or begins living a more extravagant lifestyle or avoids going on vacation, something is wrong and it's important to dig deeper to make sure finances are in proper order.
13. Establish strong financial practices in your office and adhere to them. It's a matter of sound business principles. Existing employees will appreciate a solid foundation and a clear understanding of how things need to be done. New hires will recognize how much you respect finances and know what is expected of them. They will understand this is a practice that "minds the money."

As a final note, during the employee orientation discuss the financial principles of the practice and let the new employee know you will not tolerate deceit, fraud or theft. Too many practices leave financial matters unspoken and too many physicians that who have been the victim of embezzlement fail to prosecute. Let your staff know you would!

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