

# Employee Fraud in Medical Practices

By Gary J. Cassiello, CPA, ABV

Hiring and firing are difficult enough, without worrying if your employees might steal. According to the *Association of Certified Fraud Examiner's (ACFE) 2006 Report to the Nation*, a bi-annual report that studies employee fraud, the Health Care industry ranks fourth in highest losses from fraud. Fraudulent billings were the most common type of fraud reported, with false billings occurring in approximately 25% of healthcare cases, and involved a wide variety of schemes, including submitting false healthcare claims and misappropriating patient co-pays.

Most surprising to me was that the largest portion of these crimes (36%) takes place in companies with 100 or fewer employees, and that these victim companies suffer the greatest value of losses. This puts the small medical practitioner plainly in harms way. What can you do to protect yourself, your family, and your practice? Plenty. Here's a brief primer on the scope of employee fraud and critical steps you can take to discourage and detect fraud.

## Why Employees Steal

Well, first, the employee rarely sees it as stealing. Instead the act is seen as either borrowing or that what they took was "owed" to them. Most frauds occur when three things are in place:

1. Need
2. Opportunity
3. Rationalization

And these three aspects do not always happen in any particular order. The employee may be a trusted long-term high level executive who always had the key to the safe or knew where it was kept. But then along comes a need—perhaps a gambling debt or medical cost for a loved one—and the need joins opportunity (access to your assets). Still, fraud rarely occurs with just a need and access. The employee must be able to rationalize crossing the line. Common rationalizations are that they will pay it back or that the company owes them for long hours or poor pay. In some cases the employer has failed to show basic human caring. In any case, given the rationalization, the employee commits the fraud.

## **Limit Access**

The best and most effective way to prevent fraud is to have good internal controls such as separation of duties (opening mail, reviewing bank statements, making deposits, approving vendor invoices, and paying vendors), and accountability are very important. Internal controls mean more than hiding the key to the safe. Good internal controls include knowing the proper balance in the petty cash box, having time cards stored in secure locations, and storing blank checks in a secure location. Having a consultant come in and review your internal controls can save you not only the financial loss caused by fraud, but also the embarrassment that comes along with it.

## **Examples of Medical Fraud**

In a recent case, the cost of a client's medical supplies had tripled compared to the prior year's quarterly financial statement. Further investigation proved that the receptionist was selling X-ray supplies on the side, costing the Doctor's practice over \$80,000 in a matter of months.

Another company had a trusted employee of many years who just didn't feel appreciated. When a medical need arose for a loved one, he created a fictitious company, set it up as a new vendor and started paying himself via the fraudulent invoices. Ten years later, the fraud was detected—millions of dollars had been siphoned from the company.

Lastly, when patients began to complain that co-pays paid in cash to a receptionist were not properly posted, a comparison of the appointment book to the daily cash sheet uncovered a \$40,000 fraud in less than two years.

## **Preventative Measures**

Random checks and audits are another tool to detect and discourage fraud. Speak with your accountant or seek an accounting firm that offers certified fraud examiners (also called Forensic accounting).

In addition to good internal controls and periodic Forensic Audits, another way to reduce your risk of fraud is to let your employees know you care and the steps you have taken to limit access. I am reminded of a case where when the employee was caught, she said that had she known there was a camera on the register she would have never stole the money.

Many employers provide counseling services for various addictions, ethics training, and implement review processes that provide employees with opportunities to vent and express needs.

Establish a Fraud Hotline or other anonymous way for employees who suspect fraud to report such crimes. If you setup a hotline, be sure to follow-up on each and every issue reported (not doing so leaves doubt as to your controls).

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