

# Embezzlement:

*Ashlie Barefoot Malone, MBA, JD, COE*

I would like to start this article by saying I am sorry. For those of you who have experienced embezzlement in your practice, there is nothing worse than the feeling of total and complete betrayal by a trusted employee. For those of you who are currently walking through an embezzlement issue, you are unfortunately in the middle of one of the most common forms of thievery in medical practices today.

And for those of you who have not yet experienced embezzlement, I am sorry because you either do not realize that it has already happened, or that there is an almost 80% chance it will happen in your near future.<sup>1</sup>

That's right: Roughly seven out of ten medical practices have experienced or will experience embezzlement today.<sup>2</sup> I can share, however, that 100% of the practices I contacted to write this article had experienced some level of embezzlement to date, forcing us to admit that embezzlement may be more familiar than we think.

## WHAT DOES EMBEZZLEMENT LOOK LIKE?

The clinic doors are locked each night, daily cash is deposited safely in the bank account, and the practice owners are receiving quarterly distributions, so everything must be okay...right? Unfortunately,

# Closer Than You Think?



embezzlement has many faces and can take many forms, so it is often not until this false sense of security unravels that the signs of embezzlement may be fully recognized.

Over the past few months administrators have shared with me stories about employees sleeping “on the clock,” managers submitting unapproved pay raises to “friends,” and a contractor (with access to the building after hours) using stolen patient credit card numbers to make fraudulent online purchases. One of the most extensive and shocking examples of embezzlement unraveled over several years and resulted in the theft of millions of dollars, a federal indictment, and ultimately the administrator’s subsequent suicide.

The following are a few additional examples of embezzlement shared from practices around the country so that we may all learn from one another. Although the names of the practices have been omitted to protect the privacy of those affected, the damage done to each is real.

- “Floating” cash payments by pocketing one patient’s cash payment, then applying the next patient’s cash payment to the account that was stolen from.
- Using patient credit card numbers to fraudulently make online purchases.
- Falsifying QuickBooks entries to cover up fraudulent check writing.
- Stealing cash deposits.
- Using the practice credit card for personal purchases—most commonly at stores such as Walmart or Staples that are difficult to track back to itemized receipts.
- Purchasing gift cards for personal use.
- Falsifying MIPS and MACRA reports.
- Submitting raises through payroll without owner approval.
- Issuing fake refund checks to fake patients.
- Conducting personal business while clocked into the system. This may include eating, sleeping, posting to social media, and using personal cell phones.
- Stealing office supplies or using office equipment for personal use without permission.
- Not properly deducting the employee’s share of benefits from payroll.
- “Loans” against 401k accounts that are not properly repaid.



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### DOES IT REALLY MATTER?

Trying to understand why someone might embezzle may prove to be an exercise in futility. Perhaps the employee is under personal financial stress with debt, divorce, kids, or poor money management skills. Perhaps the employee is seeking revenge on the practice for denying a pay increase or more vacation time. Or perhaps the employee simply has an inherent character weakness or a sheer lack of moral common sense. Regardless of the reasons behind someone's motivation, embezzlement is a criminal act and never okay, justified, or harmless.

The National White Collar Crime Center estimates embezzlement costs businesses and organizations a whopping \$400 billion per year.<sup>3</sup> According to *The 2017 HISCOX Embezzlement Study: A report on white collar crime in America*, the median annual loss for healthcare organizations due to employee theft was \$437,016 in 2016<sup>4</sup> with 29 schemes having lasted more than five years.<sup>5</sup> With ophthalmic practices facing rising overhead costs and some of the biggest reimbursement cuts since 2013, this loss can become the deciding factor between practice profitability, and an owner's decision to retire early.

So does it really matter? Absolutely.

### HOW DO WE PREVENT EMBEZZLEMENT?

The need and motive to commit embezzlement are not the issues. The issue is that embezzlement "is made possible through lax accounting methods and improper or inadequate supervision over employees having custody of funds."<sup>6</sup> Real prevention starts by implementing proper financial controls in our practices.

Practice owners are doctors bestowed with the gift of patient care. They endure arduous training to manage a wide range of medical ailments, but most of them are not trained in the art of business. I personally believe this is no excuse. The practice is a small business, and owners of businesses need to pay attention to the very real possibility that embezzlement may occur.

Administrators have a moral, legal, and professional duty to their employer to implement proper financial policies and controls that protect the practice's legal and financial interests, and then to abide by those policies and controls in an unbiased manner and with diligence and care. Our doctors and practice owners have hired us for this very important reason, and it is our job to step up and perform. If training or help is needed to manage these practices in a fair, honest, and skilled manner, we need to get it. If something doesn't look right, we need

to dig deeper into the issue until we find the solution. If we steal, or allow another to steal under our watch, our employer has the right to file charges against us that will destroy our career, our family, and our financial future.

Successful prevention requires implementing systems and techniques that separate duties, that outline proper policies and procedures expected from employees, and that offer financial oversight of the practice. Unfortunately, sometimes poor management can have the same disastrous effect as malicious intent, so implementing sound financial controls can become the best tool to minimize risk and reduce financial risk long-term. Recommended: Include regular independent audits by an outside firm in your fiscal control policy.

### SYSTEMS AND TECHNIQUES

The following tips are a helpful start, but a full review and assessment of your individual practice may be necessary to ensure measures taken are unique to your practice workflow and inclusive of your financial policies.

- Keep track of petty cash and require two signatures for petty cash refills.
- Separate out financial duties (checks and balances).
- Walk around the office, audit video surveillance footage, ask questions of employees about copays and deposits.
- Reconcile and deposit patient payments daily and bank accounts monthly.
- Absolutely do not send any practice mail to an employee's home address.
- Submit the full bank statement (including images of cashed checks) to the accountant and the practice owner.
- Do not allow stamped signatures to be used on any paperwork or checks.
- Allow only the practice owners to have check-signing authority and submit their signature on file to your practice's bank.
- Alert your payroll company that no raises are approved unless the practice owners are also copied on the email notification.
- Require employees to immediately post any payments received (reprimand and/or terminate habitual rule breakers).
- Watch for unusual spending or unusual increases in overhead.
- Have cash deposits counted by one employee, verified by another, and then picked up in a

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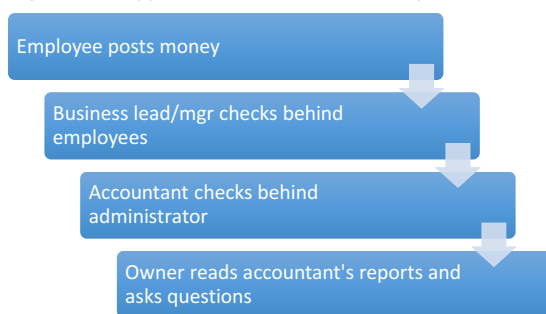
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Financial crimes account for approximately 30–50% of all business failures.

- locked bank bag by a courier service (some banks will provide this for free).
- Limit permissions within the practice management system so that the deletion of charges and/or payments must be approved by management.
- Restrict the timeclock to approved IP addresses/workstations (no clocking in from mobile apps or outside the office).
- Monitor payroll amounts and investigate large or unusual fluctuations.
- Implement a system of transparency and oversight (see **Figure 1**).

**Figure 1.** Suggested transparency/oversight system.



**THEN WHAT?**

If you have assessed internal protocols and implemented financial controls and a system for continuous audit and oversight, then now is the time to stay engaged, alert, and focused on the health of your practice. If you are dealing with an embezzlement issue, then this question has a different meaning.

When I asked several administrators and MD owners to share advice for practices dealing with embezzlement, they overwhelmingly agreed that prosecuting the offender was a necessity. This is a difficult decision and, because the offender is usually one of the most trusted employees of the practice, one of the most emotional decisions as well. But remember—you did not create this act, you did not approve this act, and you did not condone this act. If the offender is innocent, then no charges will be filed. But if the offender is guilty, these measures will provide the criminal record needed to ensure other future employees are not exposed to this risk.

And please never assume your accountant will “catch” embezzlement on your behalf. Your accountant can only work with the information s/he is given, and if deceit is

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occurring in your financial records or bank statements, your accountant may not realize the theft either.

As a wise friend and practice owner so eloquently stated, “If an employee has access to your finances, has a perceived need for more money, and can create a justification, the conditions are met for embezzlement to occur.” Most of us only need to look to our left or our right to realize this exact employee is already in our practice . . . so what are we going to do about it? **AE**

**NOTES**

<sup>1</sup>Frost, C. Embezzlement in the Medical Practice. Retrieved September 9, 2019, from <http://frostcopc.com/editoruploads/documents/embezzlement-article.pdf>

<sup>2</sup>Holt, J., & Nguyen, Y. (2014, September). How to Protect Your Practice from Embezzlement and Fraud. Slide deck, Medical Group Management Association (MGMA). Retrieved from [https://cfmgma.com/wp-content/uploads/2015/07/CFMGMA-Embezzlement-Presentation-PNC-7\\_15.pdf](https://cfmgma.com/wp-content/uploads/2015/07/CFMGMA-Embezzlement-Presentation-PNC-7_15.pdf)

<sup>3</sup><https://www.nw3c.org>

<sup>4</sup>Green, C. (N.d.). Preventing employee embezzlement in your organization. MGMA. Retrieved from <https://www.mgma.com/data/data-stories/preventing-employee-embezzlement-in-your-organizat>

<sup>5</sup>Sanborn, B.J. (2018, July 20). Medical practices can make it harder for employees to embezzle money with these basic steps. *Healthcare Finance*. Retrieved from <https://www.healthcarefinancenews.com/news/medical-practices-can-make-it-harder-employees-embezzle-money-these-basic-steps>

<sup>6</sup>Peterson, Virgil (1947). Why honest people steal. *Journal of Criminal Law and Criminology*, Volume 2, p. 94.



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