

EMPLOYEE EMBEZZLEMENT PREVENTION & MANAGEMENT
By Wold Consulting PC

USE GOOD HIRING PRACTICES . . .

Honest employees—and the great majority of office employees are honest—are your best internal control. To get honest employees requires some diligence in hiring. If you fail to check and applicant's references, for instance, you could be inviting trouble. Professional management people generally feel you should go beyond asking for letters of reference and telephone the letter-writers yourself. People often won't put in writing what they'd say on the phone. A written comment like "resigned to relocate" may turn out over the phone to be "We said we wouldn't prosecute for embezzlement if they got out of here immediately."

You should also check out past employers and—with the applicant's agreement once they accept your job offer—their current one. What you'll want to know is whether they'd be willing to hire the applicant back, and if not, why not. You'll have to recognize that there can be honest reasons for employee—employer incompatibility, but you'll also want to be sure that it was incompatibility—not dishonesty—that cause the breakup.

BOND EMPLOYEES . . .

Bond any employee who has access to assets that are readily convertible to cash. Bonding serves several purposes. If a client tells an employee that they will personally have to fill out an application to be bonded—and they have a history or inclination toward embezzlement—there's a good chance they will find some excuse not to take the job. If they are honest, there's a better chance they will stay honest because they will realize that they are being checked on. Perhaps most important, the doctor will be able to tactfully let his/her employees know that the bonding company will prosecute any transgressor. That will discourage the embezzler who might rely on "good old Dr. Jones" to let them go without punishment if caught. Finally, in the event of a loss, a fidelity bond will cover the financial loss, up to the policy's limit. We recommend a minimum coverage of \$25,000.

DIVIDE FINANCIAL RECORDKEEPING . . .

Split up job responsibilities wherever possible. Embezzlement is usually not a crime that employees commit in collusion. It's a one-person theft. If an employee knows they won't be in sole charge of the money—that today they will tally the day sheet and tomorrow someone else will and they will count the cash—they will realize how difficult it will be for them to conceal any shortages.

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BANK STATEMENTS . . .

Have your bank statement sent directly to your accountant. This should be done as a matter of internal control, unless your office is large enough to have an individual reconcile the bank account who does not have access to checks.

HAVE A DAILY “SIGN-IN” LOG . . .

Have a daily patient sign-in log for registration of each visit. It should include the names of patients who come in for ancillary services as well as those who see a doctor. If you have a busy ancillary service area, maintain a separate log there. Together with the daily appointment schedule—which should be updated whenever patients cancel, miss appointments, or walk in without them—the sign-in log gives you a cross-check on the daysheet, where all patient visits, charges, and payments must be recorded. File the log with the daysheet.

LOCK UP YOUR CHECKS . . .

Lock up your checks t night and during the day. An embezzler may pull a check from the bottom of an order of checks in order to avoid detection of the missing check. In addition, there have been cases of checks being stolen by custodians where the checks have not been properly secured at night. Be sure **not** to leave checks in the printer where they can be easily stolen.

WATCH OUT FOR ENDORSEMENT STAMPS . . .

Medical offices typically have signature stamps for use in insurance processing. The person who has access to that signature stamp should not also have access to the checkbook. Never authorize your bank to accept a facsimile copy of your signature for endorsement. To do so is to invite trouble.

REVIEW CANCELLED CHECKS . . .

Make it a habit to have the person responsible for signing checks (usually the doctor) to review the checks which have cleared the bank. The person reviewing the check should review the cleared checks for forged signatures or alterations made after the check had been signed. Although banks are supposed to compare the actual signatures with approved signatures, a bank processes many, many checks and it is very difficult for them to detect a reasonable forgery.

USE PRENUMBERED RECEIPTS, CHARGE SLIPS, CHECKS & DEPOSIT SLIPS . . .

Use numbered receipts, charge slips, and checks, and insist that all voided items be retained. The voided receipts should be stapled to the back of the daysheet, and the voided check to the back of the stub. The employee who gives a patient a receipt for a cash payment and then pockets the cash without entering it in the daysheet should be exposed when the doctor checks the receipts and charge slips at the end of the day.

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ENDORSE ALL CHECKS IMMEDIATELY . . .

Insist that all checks be endorsed immediately “for deposit only.” Don’t endorse a check to be turned over to a patient; it may never get there. Instead, deposit it and issue the patient a refund check.

DUPLICATE DEPOSIT SLIPS . . .

Get duplicate deposit slips, and have the extra copies attached to the daysheet so that they can be matched against the receipts shown.

WHEN A PATIENT CHECK BOUNCES . . .

When a check bounces because of insufficient funds, your assistant should take a fresh set of transaction slips, re-enter the charge in the patient’s account and the daysheet, and mail to him/her the charge slip and bank notice.

YOU MUST APPROVE ALL ADJUSTMENTS, DISCOUNTS, AND WRITE-OFFS . . .

Make it a rule that you must approve all adjustments, discounts, and write-offs by initialing the entries involved, whether on the daysheet, charge slip, ledger card, or all three.

Don’t write-off accounts when you turn them over to a collection agency. Rather, set up guidelines for the collection agency, instructing them to return accounts when they deem them as uncollectible. Give them a reasonable amount of time to collect the account . . . six months as a general rule. After that time, accounts should be returned to you. If the account appears uncollectible at that time, write it off. Another option is to submit it for a period of time with another agency.

IN BILLING, SEND A COMPLETE COPY OF THE ACCOUNT . . .

In billing a patient, send detailed statements. The patient will soon let you know if the debits and credits contain mistakes. For additional protection, have someone other than the person who handles in-office collections do the billings.

ALTERNATE MAIL OPENING RESPONSIBILITIES . . .

As with other office duties involving money management, alternate the mail-opening responsibilities. Assistants who open mail should be instructed to bring to your attention immediately any complaints from patients about billing, insurance company payments, and so on.

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INSIST THAT EMPLOYEES TAKE VACATIONS . . .

Insist that employees take vacations. Beware the business office employee who refuses to stay away for more than a day or two and assures the doctor that they needn't fill in for them in their absence. Workers who appear to be workhorses, even to the extent of staying late to taking work home "to keep up with the office accounts" may just be making sure no one discovers how they've been manipulating those accounts. Sending them off on a week or two vacation and putting someone else in their job often will surface any irregularities.

REQUIRE THAT AN INVOICE BE ATTACHED TO EACH CHECK BEFORE YOU SIGN IT . . .

In paying practice bills, you should require that an invoice showing that the item has been delivered be attached to each check before you sign it. Insist also that the checks be placed on your desk two days in advance so that you have time to go over the invoices carefully.

FINANCIAL RECORDS SHOULD NOT BE TAKEN OUT OF YOUR OFFICE . . .

Don't allow financial records to be taken out of the office by employees. Period.

OCCASIONALLY ADD UP THE FIGURES ON THE DAYSHEET . . .

Every now and then add up the figures on the daysheet to see if your totals for charges, payments, and adjustments correspond to those at the bottom. This will check on both your employee and computer!

OCCASIONALLY CHECK AN ENTIRE DAY'S RECORDS AGAINST EACH OTHER

Occasionally check an entire day's records against each other—sign-in log, appointment schedule, daysheet, ledger cards, charge and receipt slips—to verify that the postings match. If you're in doubt about a particular item, you should look also at the patient's chart. Also, pick a day at random and keep your own tally of the patients treated and their charges. Then at the end of the day, match your list against the daysheet. If you find any discrepancies, check the patient's ledger cards. Don't settle for one satisfactory spot check; use this technique regularly, and let your employees know it's part of the internal control system common to busy practices. It may turn up an embezzler—or it may discourage one from starting.

COMPLETED DAYSHEETS ARE TO BE PLACED ON YOUR DESK . . .

Insist that the completed daysheet be placed on your desk every day for your review. From time to time, more frequently than not, check it against the itemized bank deposit slip and your personal appointment list. Make sure everything tallies—and again make sure your employees know that this is part of your routine.

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BALANCE THE ACCOUNTS RECEIVABLE TOTALS MONTHLY . . .

Always reconcile your accounts receivable at least once a month. If you lack an accounting system—such as a pegboard or computer—that permits you to total the number of ledger cards and match it against a running total of accounts receivable, throw the system out.

We have seen clients with pegboard systems who did not “bother” to reconcile their accounts receivable. This is a big mistake that invites misappropriation of funds. The first place an employee will attempt embezzlement is with cash. If the cash totals on the ledger cards do not match the accounts receivable, there are problems. It is possible there is no chicanery, but you may be losing charges that should have been posted.

You must make sure employees know you are reconciling the accounts receivable. Employee knowledge that you are double-checking is a strong deterrent to embezzlement. Several clients have the doctor’s spouse do this, and for this work we put her on the payroll for \$2,000 a year. At the end of the year, the \$2,000 is put into an IRA.

AT THE END OF THE MONTH . . .

Have your accountant reconcile the receipts reported on your accounts receivable reconciliation with the deposits. Unless your office is big enough to have this done by someone who does not have access to cash receipts or access to positing, this duty should be delegated to your outside accountant.

ESTABLISH GOOD CONTROLS AND SPELL THEM OUT IN WRITING FOR EVERYONE INVOLVED . . .

If your employees know from the first day they arrive at your practice that you are taking preventive steps against embezzlement, the likelihood of embezzlement is dramatically reduced.

USE COMMON SENSE . . .

If you cheat, your employees are more likely to do the same, even if it’s just taking a few dollars occasionally from petty cash for lunch and not bothering to put in an IOU. Any real breach of integrity also gives employees something to hold over you, should you ever feel you have reason to prosecute one of them.

Pay your employees a substantial and competitive salary. This does not prevent embezzlement, but content employees are less likely to misappropriate funds.

OFFICE SECURITY TEST

	YES	NO
1. Employee references checked.	_____	_____
2. Fidelity bonds in place.	_____	_____
3. Financial recordkeeping responsibilities split up.	_____	_____
4. Bank statements sent directly to accountant.	_____	_____
5. Patient sign-in log used.	_____	_____
6. Checks locked up, especially at night.	_____	_____
7. Signature stamps not accessible to persons with access to the checkbook.	_____	_____
8. Cancelled checks reviewed monthly.	_____	_____
9. Pre-numbered receipts, charge slips and checks used.	_____	_____
10. Incoming checks immediately stamped "for deposit only".	_____	_____
11. A copy of all deposit slips is maintained.	_____	_____
12. When a patient check bounces, new transaction slips are filled out, the charges are re-entered into the patient's account and the daysheet, and the charge slip and bank notice are mailed to the patient.	_____	_____
13. All adjustments, discounts and write-offs are reviewed by the doctor and initialed by the doctor.	_____	_____
14. Detailed billing statements sent to patients.	_____	_____
15. Mail-opening responsibilities alternated.	_____	_____
16. All employees take vacations they are entitled to.	_____	_____
17. When signing checks to pay the practice bills, all checks have invoices attached.	_____	_____

	YES	NO
18. Employees are <u>never</u> allowed to take financial records out of the office.	_____	_____
19. Daysheets are occasionally totaled by the doctor to see if totals correspond to those shown at the bottom.	_____	_____
20. An entire day's records—sign in log, appointment schedule, daysheet, ledger cards, charge and receipt slips—are occasionally checked to verify that postings match.	_____	_____
21. Completed daysheets are given to the doctor for review on a daily basis.	_____	_____
22. Accounts receivable are reconciled at least once a month.	_____	_____
23. Your accountant reconciles the receipts reported on your accounts receivable reconciliation with the deposits each month.	_____	_____
24. Good controls are in place, spelled out in writing.	_____	_____
25. The doctor adheres to office policies with regards to cash.	_____	_____
TOTAL	_____	_____
	x 4	
OFFICE SECURITY RATING	= _____	%