

Keeping Hands Out of the Cookie Jar: How to Avoid Practice Embezzlement

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It seems that every day we read about another sensational, fraud-ridden scandal. Companies like Enron and Worldcom, and names like Madoff and Stanford, have become virtually synonymous with fraud. While these scandals involve large companies and billions of dollars, fraud most often occurs in smaller businesses - and it occurs with surprising frequency in chiropractic practices.

The Association of Certified Fraud Examiners reports that losses due to fraud in small companies are 100 times greater than those incurred in the largest companies. I can't remember a time when the frequency of fraud and embezzlement was as great as it right now within the health care industry. It's difficult to know exactly why the frequency of fraud has increased. It could be due to tougher economic times creating desperate personal circumstances that are causing more people to steal. Whatever the reason, there are significant steps that you can take to decrease the likelihood that your practice will be a victim of fraud.

Let's begin by examining the definitions of [fraud and embezzlement](#). *Fraud* is defined as "a deception made for personal gain." *Embezzlement* is "the act of dishonestly appropriating goods, usually money, by one to whom they have been entrusted." Being overly trusting is one of the main reasons fraud occurs and why it is more frequent in smaller businesses like chiropractic practices. In a typical chiropractic practice, employees are often entrusted with more responsibility and given greater authority because the financial resources to spread out the responsibility and authority by hiring a greater number of people do not exist. This scenario makes practice owners highly susceptible to fraud and embezzlement.

The trust placed in key employees is often earned over many years. In many cases of embezzlement, the individual committing the crime has been working in the practice for 10 years or longer. In these long-term relationships, trust and authority are given far more than they should be. Why? Because the business owner's guard is down due to the comfort level that has developed with the familiar individual. Unfortunately, it is not uncommon that these most trusted individuals are the ones who steal more frequently and over the longest periods of time.

In my career, I've seen both the financial and emotional effects fraud has on the owners and employees of a practice. The cost is often much greater than the value of the monies misappropriated. The distraction of the owners and others involved with the practice is costly in terms of [loss of productivity](#), as well as the cost to replace a once-trusted and valued employee. In addition, there is the cost of collecting information to provide to the authorities for prosecution.

In many instances, despite the financial and emotional pain inflicted, the perpetrator is not prosecuted. Reasons include loyalty to the individual due to what used to be a strong relationship; not wanting to hurt the person beyond the loss of their job; and embarrassment in being the victim of such a crime.

What You Can Do About Fraud

There are many ways you can mitigate fraud and the chances that it will occur in your practice. Here are a few items to consider:

Consider obtaining a bond on certain employees: The cost of a bond is cheap insurance should embezzlement or other fraud occur. When you let prospective employees know that you will be bonding them and that the bond company will conduct thorough background checks, including criminal offenses, you may find that the candidate chooses another job. All employees to whom you will entrust financial assets should be checked, including your receptionist, who opens the mail.

Require employees to take vacation time every year: Do not allow employees to forego vacations, get paid for unused vacation or carry over unused vacation. Most embezzlers work very hard to cover up their trail of deceit. A lack of willingness to temporarily turn their role over to another individual can be a key signal that something untoward may be occurring. If you take the person out of their job for a few weeks a year, you create an opportunity for a trail to surface and the wrongdoing to be uncovered.

Be aware of changes in an employee's lifestyle, circumstances and/or behavior: A change in an employee's spouse's employment situation could be a catalyst for fraud. When placed under severe financial stress and given unchecked access to your practice's finances, the level of temptation can be great. The sudden purchase of an automobile, vacation or other luxury items that would normally be outside of the expected financial ability of the employee may also signal that a crime is being committed.

Monitor your financial statements and management reports: Monitoring your financial reports can provide clues to the possibility of fraud. When cash leaves your practice, oftentimes the general ledger will reflect that activity. Paying close attention to your practice's [financial metrics](#) will allow you to understand what a "normal" range is. If the numbers stray outside the norm, it could be an indicator of fraud.

Always have an invoice or other support for any check you sign: Due to the volume of checks practice owners sign, they often don't take the time to review supporting documentation to ensure all expenditures are justified. An embezzler may run into the owner's office with only the check and ask for a signature. The payee may be familiar, such as American Express; but is it *your* American Express account or someone else's account? You won't know unless you have the backup for the check agreeing to the amount.

Provide instructions to your bank: In many cases an embezzler will write checks from a practice's operating account directly to themselves. Instruct your bank to never honor a check from your operating account written to an individual. Provide your bank with a list of your employees and instruct the bank to only honor payroll checks written to names on that list. Have a copy of your bank statements, or the originals, mailed to your home. Review each statement for appropriate employee and vendor names.

Prosecute and Communicate

It's important to create a zero-tolerance culture whenever fraud / embezzlement occurs. Letting the individual know that the authorities will be brought in can increase your chance of recovering embezzled funds through restitution. If fraud is discovered, communicate the situation to *all* employees. Be careful to stick only to the facts, but give your employees a clear message that the fraudulent activity was not acceptable, will not be tolerated and will be prosecuted to the fullest extent of the law.

Fraud has been part of our society for thousands of years. It is driven in part by greed and sometimes by fear. Be aware that the chances of becoming a victim are very real. Being proactive and alert will lessen the chances that it happens in your practice.

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