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Protect Your Practice (Pt. 2): Employee Crime

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When considering employee crime, it is important not to be naïve. Employee theft costs U.S. companies \$40 billion annually. Over a five-year period, 80 percent of health care practices will experience embezzlement in one form or another. More than 70 percent of employee embezzlers have practiced their embezzlement skills with a previous health care practice.

The most common incidents of crime occur with employees who are involved with inventory control, data processing, purchasing, receiving, bookkeeping and cash disbursements. Give heightened scrutiny to employees who handle administration, handle or review accounting, and are involved in reconciling bank statements. Don't leave your practice vulnerable by not periodically checking on employees who are involved in performing this type of work. Follow good financial stewardship by not giving authority without holding individuals accountable (for example, signing blank checks before a trip).

Why Does Employee Crime Happen?

Practices are comprised of a close-knit group of employees. Most of the members know each other well. Many times, practices, procedures and controls are deemed unnecessary or not instituted due to the sense of familiarity that develops over time. Practice owners should remember that a lack of control mixed with daily cash flow is a potentially dangerous situation.

While employee crime is commonplace, many doctors allow it to happen because they are reluctant to admit when it does occur. They often believe it was nothing other than an isolated incident. For these reasons, doctors often fail to report employee crime to the authorities.

Doctors can take some of the blame for employee crime by not following good business practices. Do not give blind trust to employees. Accountability is an essential component of a healthy employment

relationship. Keep abreast of all of the business aspects of your practice and do not delegate this important area without regular reviews. Maintain strong management over the financial control of your practice. Don't set a bad example to your employees by taking money from petty cash or cash receipts. Avoid placing all of the financial activities of your practice in the hands of one employee.

Which Employees Are Most Likely to Commit Crime?

Beware of the overly loyal employee who doesn't take vacations, or takes just one or two days off at a time. The employee who constantly works overtime, takes accounting work home or is seldom absent also should trigger concern. Employees who always come in early and stay late may be doing so to cover the tracks of their malfeasance.



You should have on your radar any employee who exhibits all-controlling behavior. This is the employee who resents having their work overseen, resists change in a computer or accounting system, or has "no time" to post the financial books.

Employee Crime: Know the Signs

There are many ways that embezzlement occurs. Some of the most common methods include creating fictitious receipts for payments, slipping a blank check into a stack of checks to be signed, refunds to fictitious patients, extra paychecks, and paying bills twice and pocketing the refunds.

The signs of employee crime often become glaring after the incident has been discovered. One often asks how it went unnoticed for so long. Be alert for changes in your employees' lifestyle. Do you have an employee who has a deteriorating personal financial condition? Do not take lightly employees who

are vocal about the doctor's income, lifestyle, or the fees charged by the practice. Watch for new spending patterns – car, house and/or jewelry.

How to Establish Security in Your Practice: Basic Steps

You can protect your practice from employee crime by following some basic steps:

- Carefully screen job applicants and check their referrals before hiring.
- Implement an internal system for financial audits.
- Regularly examine canceled checks to see if there is anything unusual. Have more than one person prepare payroll and always review it.
- Require two people sign off on checks above a set amount.
- Limit the endorsement of checks (other than owner) to "Deposits for credit only."
- Divide the financial responsibilities of your practice. (For example, the person receiving checks shouldn't be the same person depositing them, and the person ordering supplies shouldn't be the same person paying supply bills.)
- Finally, require all financial employees to take a vacation annually. It's difficult to keep up fraud during absence.