In her MGMA session on the internal checks and balances practices should implement to prevent fraud and embezzlement, Susan F. Childs noted that 75 percent of businesses have a risk of theft or embezzlement. Is your practice at risk? Find out how to assess your practice procedures and prevent theft in your practice.

Collecting copayments, dealing with vendors, and getting payroll in on time are all part of a busy practice administrator's job. They are also areas ripe for fraud and embezzlement, according to industry expert Susan F. Childs, and need to be monitored closely to avoid putting your practice at risk.

Childs, founder and operator of North Carolina-based Evolution Healthcare Consulting, said no matter the size, location, or the medical expertise of a practice, fraud and embezzlement can strike unless several steps are taken by administrators to recognize areas of financial risk, identify actions and policies to support internal controls, and establish hiring practices that are thorough and responsible. "Practices are like refrigerators," she said at this year's MGMA annual conference. "They all have milk, eggs, and butter, but they store them differently." Childs noted that 75 percent of businesses have a risk of theft or embezzlement and the more personalized the business, the more that percentage drops. Physician practices are usually small and personal, but that doesn't mean they can't get hit with illegal activity. Furthermore, an average of 8 percent to 10 percent of income is usually embezzled, Childs said, and when you look at practices that bring in millions annually, that could result in a large amount of lost income.

One tool to help prevent fraud and embezzlement is your EHR, Childs said, which can be used to track every transaction and dollar, perform audits, and support procedures already in place at the practice.

"Everything now is about EHRs and 'meaningful use,' but you need to look at how your system supports your policies," she said. "Not many EHRs have inventory control, but if it is built into your system, it is a really, really good thing. Look for an EHR that supports your style ... so you can use it to the fullest."

Your accounts receivable, including patient balances, are an area of high risk for fraud, Childs said. She advised administrators to have a clear policy in place, know who collects what types of balances, and take a good look at patient accounts "on hold," as you may be too busy to review them. But "somebody can be using a patient to funnel money" to themselves, unbeknownst to that patient and the rest of the practice.

Your general accounting is another high-risk area. Childs advises avoiding the use of a "signature" stamp, which can be easily misused, to taking a closer look at where you keep cash and checks received on a daily basis. Childs gave the example of a practice she worked with that kept a stack of blank checks neatly organized in an open bookshelf without any supervision. "Anyone can get to those and they will go for the middle [numbered] checks, not those on the top of the pile," she said. "That way, it will be a while until you notice something is wrong. Every check should have an invoice and be clearly marked 'paid.'"

Childs also gave various examples of former practice employees opening either duplicate bank accounts for their employer or a whole new account to funnel patient payments, vendor reimbursements, and other cash to themselves unbeknownst to the rest of the staff due to a lack of proper supervision.

As far as how to spot potential theft or embezzlement, Childs said there are three key elements for individuals who might conduct illegal activity: opportunity, need (either real or imagined), and rationalizing. Childs gave the example of employees who feel doctors either make so much money due to their profession or benefit from the majority of revenue, that other employees are "entitled" to some of those funds.

She added that most former employees started by embezzling small amounts of cash — from petty
cash theft to claiming false reimbursements — that later escalated when it was apparent no one was watching.

And who are those in your practice that could commit potential fraud and/or embezzlement? Childs advised administrators to look for red flags such as those who are overly defensive, who manage patient refunds, who often don't take vacations — so another person doesn't take over their responsibilities and discover illicit activity — and who actually refuse a promotion, again feeling they have a good situation and don't want to give up their illegal activity.

But she also noted that having good, trustworthy employees is also a way to avoid fraud and embezzlement as well. So while there are many areas ripe for possible illegal activity, Childs said it is up to practice administrators to take numerous steps to prevent such events from occurring.

"You are the barometer of your practice," she said. "You are the leader and if you lead and set good examples, your employees will respect you and that makes them more loyal to your practice."

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