

# Employee Embezzlement: How To Tighten The Loopholes

By Carl N. Frost, CPA, CVA  
Frost & Company, P.C.  
50 Briar Hollow Lane, Ste 300E  
Houston, TX 77027  
[cfrost@frostcopc.com](mailto:cfrost@frostcopc.com)



**The Hekman Group**  
*Medical Management Ingenuity*

4623 Forest Lane, Suite 100  
Holland, Michigan 49423  
(616) 335-5700

***Because physicians have a caring and trusting personality, they are more susceptible to embezzlement.***

*It is projected during a 5 year period, over 80% of all medical practices will experience some form of embezzlement.*

*The psychological makeup of an embezzler reflects several common traits.*

While the highly skilled physician is dedicated to the health of his or her patients, he/she is, at the same time, an entrepreneur and owner/operator of a functioning business. This holds true when discussing either a solo practice or a multi-physician practice, as in both scenarios, the physician invests a substantial amount of time and money in equipment and operations, and is responsible for the essential policies and procedures necessary to function within the healthcare environment as it exists. Unfortunately, the caring and trusting personality that is a necessity for a good physician, as well as limited business training received during medical school, internship and residency programs does not properly prepare a physician for the ability to operate and control a functioning business. Further, these factors place the physician and practice at a much greater risk to experience embezzlement at least once, if not several times during the life of the practice.

Within today's society, incidences of fraud and embezzlement are increasing at an alarming rate. Healthcare is not exempt from such increases as recent statistics reflect that ten percent (10%) of the nation's healthcare cost is lost through fraud. Not only is the general healthcare system experiencing difficulties with fraud, but physician practices are increasingly faced with embezzlement problems. It is projected during a five (5) year period of time, over eighty percent (80%) of all medical practices will experience embezzlement in one form or another. Additionally, of those committing the embezzlement, it is estimated that seventy (70%) have practiced their embezzlement skills with a previous medical practice. Such personnel are enabled in moving from practice to practice as physicians are particularly reluctant to 1) admit it has happened to them, 2) believe it was anything other than a minor isolated incident, and 3) report it to the proper authorities.

The question is, why are medical practices particularly susceptible to embezzlement? The average medical practice is comprised of a close-knit group of people who initially become involved in the healthcare world to be connected with the treatment and care of patients. The majority of these staff members come to know each other and the physicians quite well, and due to this familiarity many times policies, procedures and controls are not instituted or deemed necessary. When this lack of control is mixed with a daily flow of cash and checks, centralized money functions and a lack of supervision, the practice is an open account for a potential embezzler.

## ***Profile of an embezzler***

Research and analysis of the psychological makeup of an embezzler reflect several common traits. In order to commit fraud/embezzlement, the employee must have gained the trust and confidence of the person or practice being defrauded. It is, in fact, this confidence that permits the employee to commit and continue to conceal the embezzlement. In order to gain this confidence, the employee, rather than using a knife, gun or physical force to commit the crime, uses trickery and cunning in order to commit the embezzlement. The embezzler's personality is such that very rarely do they invest what they embezzle, instead, they spend it increasing their lifestyle or utilize it for such activities as gambling and drugs. Once the embezzlement has begun, it is rarely voluntarily terminated. Greed of the employee is such that they will continue and in fact, eventually increase their action as they become

**Over-confidence often leads to detection.**

*Embezzlement begins with a need to "borrow" money from the practice, with the intension of returning it the next week.*

*Embezzlers use a number of quite inventive methods to achieve their goals.*

more confident they will remain undetected in the embezzlement. ***It is however, this confidence that will eventually be the undoing of many embezzlers: Over time, they grow careless and over-confident and do not take sufficient care to hide their embezzlement, which eventually leads to detection.***

### **Embezzlement process**

When an employee first becomes involved in embezzling from a practice, a common process is generally followed. Initially, the employee needs additional cash and is just going to "borrow" the money from the practice and return it next week. As their personal cash demands continue, they are not only unable to return the money, but need to continue to "borrow" from the practice. As this process evolves, many times the employee begins to feel the physician makes too much money anyhow and the doctor owes the employee: "Without me, the office would not be able to function, nor would the physician be able to make the income that is being created in the practice." As this thought process grows, greed takes over and the employee comes to depend on the extra income to help cover existing costs or an expanding lifestyle.

### **Embezzlement Methods**

All these activities are made possible and enhanced by the actions or inactions of the practice's doctor, including:

- Blind trust of employees.
- Failure to keep abreast of business aspects of the practice.
- Setting a bad example by taking money from petty cash or cash receipts. (Even though many physicians argue this is their money, they are helping train their employees in bad business procedures.)
- Loose management requirements regarding financial control of the practice.
- Placing financial activities completely in the hands of one employee.

The above causes, embezzlement process, and profiles of an embezzler are all useful in identifying potential problems within individual practices. In order to continue identification, knowledge regarding methods utilized by embezzlers can provide opportunities to recognize potential problems. Embezzlers use a number of quite inventive methods to achieve their goals. The following is a list of some of the more common methods, but is far from all-encompassing considering the variety of unique methods used:

- Employee takes cash payment from patient and does not post charge or payment.
- Employee gives patient a fictitious receipt for payment that was made.
- Employee gives busy doctor a sheaf of checks to sign, includes an extra one.
- Refund check made out to fictitious patient. (Employee opened an account under that name)

**No one wants to think they are being betrayed by a “loyal” employee.**

- Employee substitutes insurance check payment for cash taken and doesn't post insurance payment.
- Rubber stamp is made of doctor's signature: uses to make extra pay-check for self.
- Employee purposely pays a bill twice and then pockets the resultant refund.

### ***Employee Types***

As a physician reviews the practice and employees, he never wants to think that these people he has trusted and relied on, sometimes for years, would ever think of betraying him. However, a wise employer should always stay vigilant and be aware of certain behaviors that can occur during the course of any practice, including:

#### *The overly loyal employee*

These employees always appear to be going beyond the call of duty. The danger signs of which to be aware are:

- Employee does not take scheduled vacations, or takes only a day or two off.
- Employee constantly works overtime, takes work home, and is seldom absent.
- Employee comes in early or stays late on a regular basis.
- Employee takes accounting work home.

#### *Employee lifestyle change*

Employee lifestyle changes encompass those of a struggling employee and those of an employee who suddenly seems to be enjoying a greater lifestyle. These include:

- Deteriorating financial condition of employee, spouse unemployed, etc.
- Employee shows emotional stress about family or personal financial problems, which could include separation, divorce or a boyfriend or spouse who is an alcoholic, drug addict, or gambler - all problems that create severe financial pressures.
- Employee openly resents doctor's income, lifestyle, size of fees charged.
- Employee abruptly changes spending patterns: new car, house, boat, clothes, or jewelry.

#### *The all-controlling/Always-an-excuse employee*

This employee either wants total control over all financial aspects (in fact, many times will convince the physician that outside professional assistance, CPA

*A wise employer should always stay vigilant and be aware of certain behaviors.*

***Be aware of changes in your practice's financial activities.***

*Embezzle-proofing a medical practice begins with the physician and should not be delegated to office staff.*

or consultant, is an unnecessary expense) or when functions are not performed always has an excuse:

- Employee openly resents any overseeing of his or her work or new financial controls.
- Employee adamantly resists any change in the present accounting system, especially if the change involves the replacement of an antiquated system with an easier, more efficient modern one.
- Employee often "forgets" to follow procedures or has "no time" to post books.
- Bank statement does not reconcile with checkbook balances
- Bookkeeper produces sloppy records: lots of erasures, jumbled data, etc.
- Employee keeps all office financial responsibilities for himself.
- Practice uses a computer billing system, but bookkeeper tells you the computer is losing information.
- Employee is casual about observing office procedures, for example, in the case of a medical office receptionist, "forgetting" to post the days activities or "running out of gas" before completing the daily close.

In addition to the specific behavioral actions by employees, changes in other practice financial activities can be a flashing warning signal:

- Without apparent explanation, accounts receivable increases.
- Conversely, without apparent reason, collection ratio decreases.
- Physician is writing checks on a regular basis to a new supplier whom he/she never met.
- Supplies in office seem to be used at an inordinate rate when patient census or flow has not increased.
- Employee is overzealous about collecting on overdue accounts, using high-pressure telephone solicitation techniques that never seem to bring results.
- More overtime than usual is paid to staff and work is still not current.

And lastly, an action that warrants serious review of previous activities:

- ***An employee who handles financial affairs suddenly quits or disappears without explanation.***

***What to do***

**NEVER LET ONE EMPLOYEE BE IN CONTROL OF ALL FINANCIAL TRANSACTIONS.** Embezzle-proofing a medical practice begins with the physician and should not be delegated to the office staff to accomplish. The one you may be depending upon, may be the one performing the illegal task. If embezzlement is currently suspected, immediately retain outside expertise to discover any inconsistencies within the financial affairs of the practice. The professionals retained should have expertise in healthcare and understand the particular financial and operational

***There is no “iron-clad” methodology to ensure embezzlement will never occur, but with proper controls it can be minimized.***

issues existing in today's medical practices. If embezzlement is not currently suspected, but concern exists regarding office policies, procedures and controls, retain a professional with expertise in healthcare finances and operations, who can work with you and your staff to establish the necessary controls, safeguards and division of duties that can assist in protecting the practice in the future. As expertise is being sought, bond all employees who have access to financial dealings in the practice, as this will form protection if future embezzlement occurs.

Even with the best of established controls, there is no "iron-clad" methodology to ensure embezzlement will never occur, but with proper controls and oversight, it can be minimized. Every doctor within a practice needs to be aware that it can happen, be proactive in steps to avoid or minimize embezzlement and utilize the necessary professionals to ensure the "business" of the medical practice is functioning properly to protect the physician's financial future.