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INFORMANT

Diablo Medical Billing, Inc.

THEFT in group practices cost billions of dollars annually...

Given the choice to increase revenues by 5 percent or lose millions – or billions – to fraud, what would you do? It is a choice, yet few professionals recognize it. As a result, medical practices lose $25 billion annually, according to the Association of Certified Fraud Examiners (ACFE). The group estimates that the typical organization loses 5 percent of its revenues to fraud each year. Apply that number to the 2008 national physician and clinical services expenditures, and it becomes $25 billion. In the 2010 ACFE report, 86 percent of perpetrators were first-time offenders who had never been charged or convicted of a fraud related offense.

MGMA members reported 782 cases of theft totaling $94,603,779 in losses. In these cases, employees stole through theft of receipts, cash on hand, disbursements such as forging or altering a check, submitting fictitious invoices, paying personal expenses with company funds, payroll and expense reimbursement.

Although employee theft of $100,000 or more represented 18 percent of the cases, those high-dollar thefts accounted for 93 percent of the total losses.

How they do it ?

Employees who stole money worked alone in the vast majority of cases. In more than half the cases, employees had three or more years of tenure.

Most fraud schemes go undetected for long periods. In the MGMA research, it was a median of eight months compared to 18 months for the ACFE survey; however, thefts greater than $100,000 were ongoing for a median of 36 months4 before being discovered.

Eighteen respondents reported losses of $1 million or more. The million-dollar schemes involved groups ranging from one to several thousand physicians.

One of the cases involved the administrator of a group of fewer than five physicians. For 20 years the person had control of all accounting functions with the exception of month-end financial reports prepared by an outside public accounting firm. The practice lost $1 million over five years through various payroll and cash disbursement schemes. It came to light when the administrator's husband was hospitalized and an outside person was brought in and quickly uncovered the scheme.

Many fraud schemes require constant attention to hide the losses. Any one of the following three internal controls may have prevented or diminished the theft described above:

1. Requiring the employee to take vacations while someone else covers his or her primary responsibilities;

2. Reviewing canceled checks, particularly payroll and disbursement checks payable to the employee or to unfamiliar vendors; and

3. Surprise reviews of payroll and cash disbursements by a certified public accountant or forensic accountant.

Of the 116 cases involving thefts of $100,000 or more, 70 percent occurred in smaller groups of 10 or fewer physicians. Perpetrators were typically long-term employees with access to money and the ability to override controls.

Why are medical groups at risk?

All businesses are at risk of employee theft and embezzlement. Medical practices are especially vulnerable because:

• Physicians/owners trust employees to do their jobs with little oversight or interference, creating an opportunity for trusted employees to steal with little risk of being caught. It's important to trust your employees, but checks and balances are a necessity.

• In smaller groups, it is difficult to separate duties because too few people are involved in the accounting processes. • Medical practices have a high transaction volume, which makes losses less noticeable.

How and why honest people steal ?

A widely accepted rule of thumb among forensic accountants, auditors and those who write employee dishonesty coverage insurance is called the 10-10-80 rule: 10 percent of your employees will always steal, 10 percent will never steal and the other 80 percent will steal under the right set of circumstances. Here are a few reasons:

• Financial pressure

• Rationalization

• Opportunity

Segregating duties

If one person takes co-pays and can cancel appointments or write off accounts, how would management know if he or she pocketed some cash and deleted or covered up the transaction? "Separation of duties is critical even when employees are trusted," said one research respondent. "This would have removed temptation for the employee, who began embezzling when her husband lost his job."

Since it can be hard to separate duties in small medical groups, use other controls to discourage aspiring embezzlers. One option is to create a perception of detection.

To accomplish this, practices should perform routine reconciliations and surprise audits, focus on the tone at the top (the culture of the practice and the attitude of the leadership toward ethical behavior) and train employees to identify and report suspicious behavior.

Routine reconciliations - The bank statement and merchant card statements should be reconciled monthly by someone who is not processing receipts or disbursements and cannot process credit card refunds.

Surprise audits – Conduct unscheduled audits.

Code of conduct – This document should clearly and simply describe your expectations and include where and how employees can seek advice when faced with potential wrongdoing.

Fraud training – Train employees, managers and physicians on what constitutes fraud, the importance of fraud prevention and deterrence, and how to identify red flags or warning signs exhibited by perpetrators.

One research respondent advises colleagues to "prosecute, prosecute, prosecute!

For example, front office staff and cashiers who take co-pays should not be able to write off accounts or delete appointments. If they decide to pocket cash, at least they won't be able to eliminate the evidence. Many of the lower-dollar schemes in the MGMA research involved co-pays and other cash payments, which could have been identified faster if offenders had not been able to write them off.