

Telltale Signs of Employee Fraud

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Agenda

- Common Fraud Situations
- Types of Fraud
- Fraud Controls
- Examples from Practices with Fraud Occurring
- Solutions for Your Practice
- Closing



Common Situations for Practices – Is this You?

- “But Marge is the only person handling a process involving money from beginning to end solely, it’s very efficient”
- “I sign every check so there can’t be any fraud”
- “No one would pay out their PTO bank on their own”
- “I only trust Joe with that task”
- “Suzie would never do that to me...”



Have you seen this before in your practice?

- Skimming of patient collections at front desk
- Credit card amount adjustments (terminal misuse)
- Deposit errors and skimming at this level
- Write-off/adjustments of receivables
- Refund checks to friends or relatives
- Payments to fictitious vendors
- Supply vendor “deals” to get business
- Online banking transfer to pay credit cards
- Payroll manual adjustments to wage rates
- PTO banks being paid prematurely
- Excessive Petty Cash Requests
- Check Fraud – “*Catch Me If You Can*”...



The Fraud Problem:

How 'big' is Fraud?

- U.S. Organizations lose an estimated 7% of annual revenues
- Based on U.S. Gross Domestic Product (2008)

**\$994 Billion
estimated in the U.S.**

Source: Association of Certified Fraud Examiners "2008 Report to the Nation on Occupational Fraud & Abuse"



Insider - Occupational Fraud

Presentation Focus: **Occupational Fraud**

Definition: The use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

Occupational Fraud is far and away the largest source of fraud loss

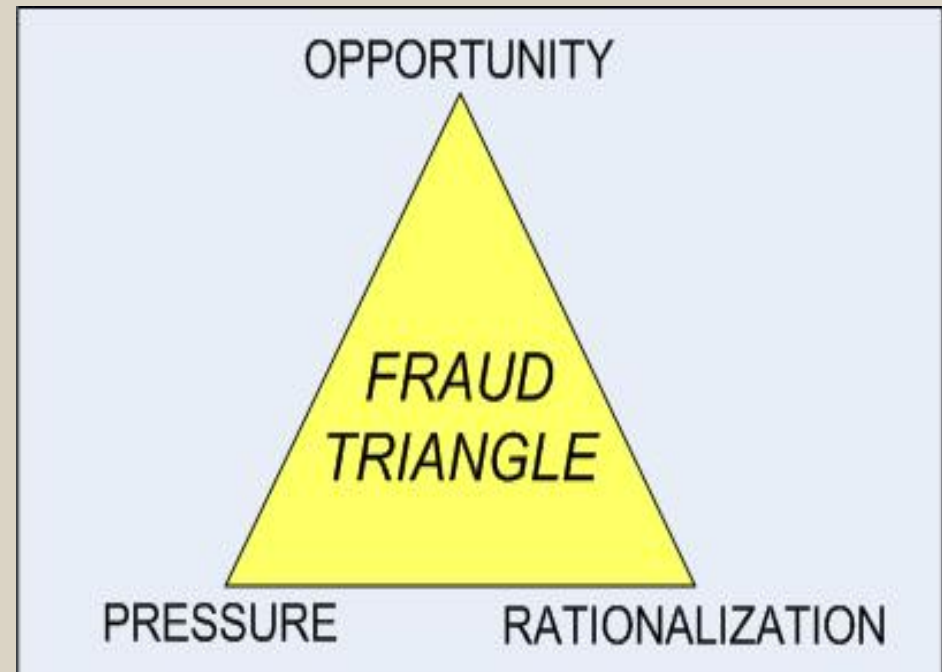


Fraud Triangle

JDW1

Fraud Triangle

- Incentives / pressure to commit fraud
- Attitudes / rationalizations
- Opportunities to commit fraud



Most frauds occur over long time horizons – Approx. 1-2 years median time from start to detection.

Slide 7

JDW1

Fraud Triangle - first identified in 1950's by criminologist Donald R. Cressey to explain why people commit fraud. Has evolved since then.

Jdwatson, 4/20/2010

Fraud Statistics

Association of Certified Fraud Examiners

- **The 2008 ACFE Report to the Nation**
 - Based on investigation of 959 cases of occupational fraud between January 2006 and February 2008
 - Best source to research organizational exposure by industry and firm size, available on-line free at:

<http://www.acfe.com/documents/2008-RttN.pdf>



Types of Frauds and Frequency by Industry

Occupational Frauds Based on Industry - Sorted by Frequency			
Industry	# Cases	% Cases	Med. Loss
Banking/Financial Services Care	132	14.6%	\$ 250,000
Government and Public Administration Care	106	11.7%	\$ 93,000
Health Care	76	8.4%	\$ 150,000
Manufacturing	65	7.2%	\$ 441,000
Retail	63	7.0%	\$ 153,000
Education	59	6.5%	\$ 58,000
Insurance	51	5.6%	\$ 216,000
Construction	42	4.6%	\$ 330,000
Religious, Charitable, Social Services	39	4.3%	\$ 106,000
Services - Other	35	3.9%	\$ 100,000
Services - Professional	34	3.8%	\$ 180,000
Transportation and Warehousing	31	3.4%	\$ 250,000
Real Estate	29	3.2%	\$ 184,000
Technology	28	3.1%	\$ 405,000
Utilities	22	2.4%	\$ 90,000
Oil and Gas	17	1.9%	\$ 250,000
Wholesale Trade	17	1.9%	\$ 150,000
Arts, Entertainment, and Recreation	16	1.8%	\$ 270,000
Telecommunications	16	1.8%	\$ 800,000

Source – 2008 Report to the Nation on Occupational Fraud and Abuse



Types of Frauds and Frequency

Health Care - 76 Cases	Healthcare	All Cases
Scheme	%	%
Corruption	26.3%	26.9%
Skimming	19.7%	16.6%
Non-Cash	19.7%	16.3%
Billing	17.1%	23.9%
Check Tampering	17.1%	14.7%
Expense Reimbursement	15.8%	13.2%
Cash Larceny	15.8%	10.3%
Payroll	13.2%	9.3%
Cash on Hand	9.2%	12.6%
Fraudulent Statements	7.9%	10.3%
Register Disbursements	5.3%	2.8%

CM2

Source – 2008 Report to the Nation on Occupational Fraud and Abuse

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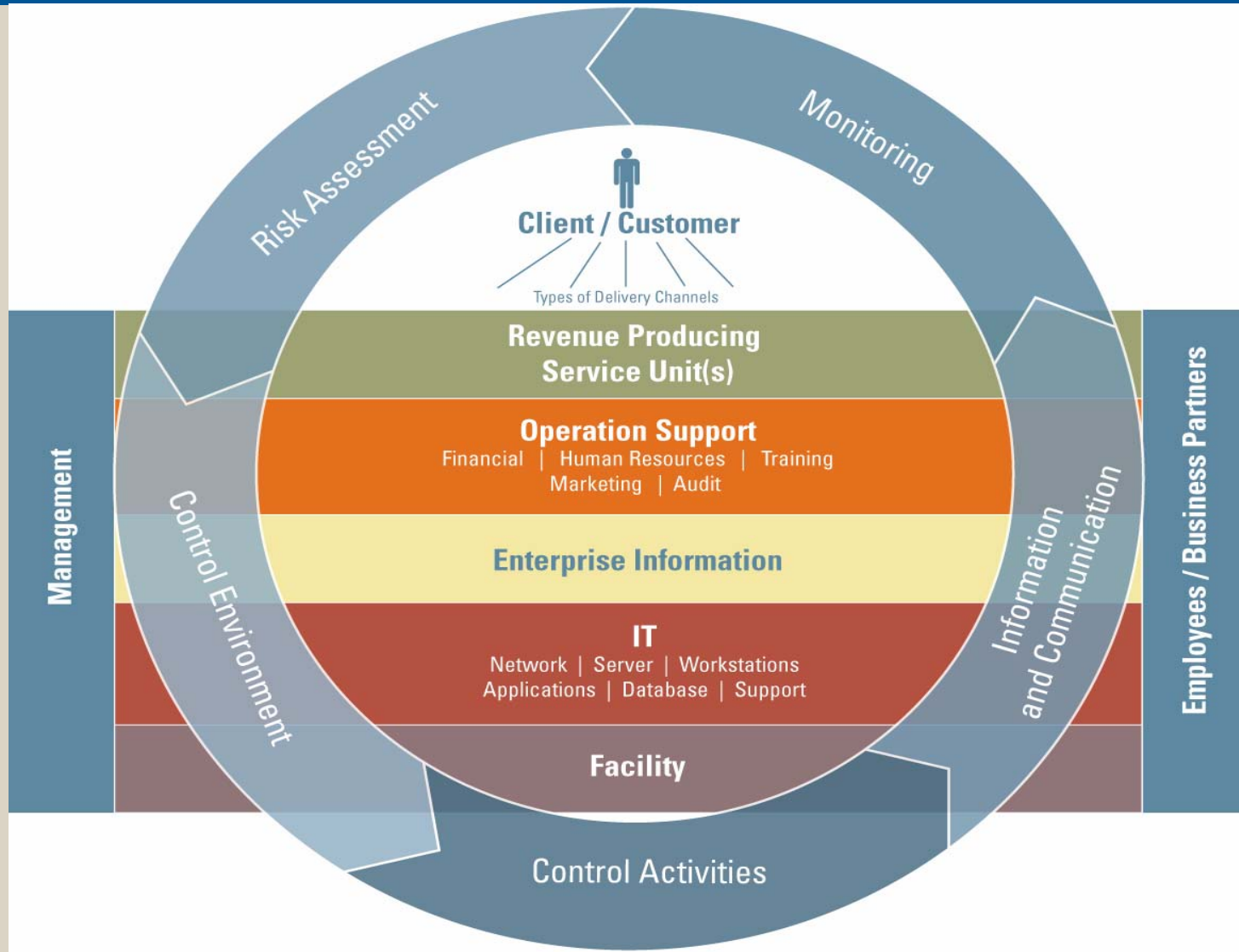
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Highlighted categories are both incoming cash areas

Curt Mayse, 5/3/2010

Control Framework



Fraud Controls - Cost / Benefit

- In general, as **control and security increases:**
performance decreases



Fraud Controls

Preventative Controls - designed to prevent fraud before it has occurred.

Examples:

- Passwords and physical safeguards are established to restrict access to appropriate personnel.
- Authorization and limits are established to ensure the appropriate oversight of significant transactions.
- Regular balancing and reconciling are completed by an individual independent of the transactions processed through the account.



Fraud Controls

Detective Controls - designed to detect fraud after it has occurred.

Examples:

- Exception reports are reviewed and cleared by persons with appropriate authority.
- Systems maintenance reports are reviewed to ensure changes are completed properly and authorized.
- Documentation reviews are completed to ensure files are complete.



Fraud Controls

- Detective Controls - designed to lessen impact of fraud
 - The implementation of anti-fraud controls appears to have a measurable impact on an organization's exposure to fraud.
- The study examined 15 specific anti-fraud controls and measured the median loss in fraud cases depending on whether organizations did or did not have a given control at the time of the fraud.
- In every comparison, there were significantly lower losses when the controls had been implemented.
- For example, **organizations that conducted surprise audits suffered a median loss of \$70,000, while those that did not had a median loss of \$207,000.** The study found similar reductions in fraud losses for organizations that had anonymous fraud hotlines, offered employee support programs, provided fraud training for managers, and had internal audit or fraud examination departments.

Source – 2008 Report to the Nation on Occupational Fraud and Abuse



Impact from Presence of Anti-fraud Controls

Median Loss Based on Presence of Anti-fraud Controls

Control	% of Cases Implemented	Yes	No	% Reduction
Surprise Audits	25.5%	\$70,000	\$207,000	66.2%
Job Rotation / Mandatory Vacation	12.3%	\$64,000	\$164,000	61.0%
Hotline	43.5%	\$100,000	\$250,000	60.0%
Employee Support Programs	52.9%	\$110,000	\$250,000	56.0%
Fraud Training for Managers / Executives	41.3%	\$100,000	\$227,000	55.9%
Internal Audit / FE Department	55.8%	\$118,000	\$250,000	52.8%
Fraud Training for Employees	38.6%	\$100,000	\$208,000	51.9%
Anti-Fraud Policy	36.2%	\$100,000	\$197,000	49.2%
External Audit of ICOFR	53.6%	\$121,000	\$232,000	47.8%
Code of Conduct	61.5%	\$126,000	\$232,000	45.7%
Management Review of IC	41.4%	\$110,000	\$200,000	45.0%
External Audit of F/S	69.6%	\$150,000	\$250,000	40.0%
Independent Audit Committee	49.9%	\$137,000	\$200,000	31/5%
Management Certification of F/S	51.6%	\$141,000	\$200,000	29.5%
Rewards for Whistleblowers	5.4%	\$107,000	\$150,000	28.7%



“Do I Really Have to Deposit All of It?”



How to Identify Embezzlement in Your Employees

- Significant lifestyle changes
- Living beyond their means
- Rarely takes vacation
- Reluctant to provide information to management
- Tireless worker, seems indispensable
- For Billing – Co-workers are intimidated by them
- *Typically, a repeat offender...*



Signs That Embezzlement is Occurring...

- Increasing Accounts Payable or Receivable
- Expenses unusually high or large increases
- Unexplained adjustments to Accounts Receivable
- Decreasing collection rates
- Increased adjustments on bank reconciliation
- Discrepancies between bank deposits and posting
- No cash in deposits
- Unusual payroll increases



What We See in Physician Practices...

- Skimming of patient collections at front desk
- Credit card amount adjustments (terminal misuse)
- Deposit errors and skimming at this level
- Write-off/adjustments of receivables
- Refund checks to friends or relatives
- Payments to fictitious vendors
- Supply vendor “deals” to get business
- Online banking transfer to pay credit cards
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What To Do When You Suspect Embezzlement

- Identify employees who had both access and opportunity to commit embezzlement
- Don't take anything for granted
- Investigate before accusing because the fraud will continue if you continue to monitor it
- Call your CPA, Attorney or Consultant
- Act on the advice of these professionals
- Don't tip your hand to other management team members or physicians until you know all the facts



Preventative Measures

- Only sign checks with supporting documentation for all invoices
- Two signatures for all checks
- Receive the bank statements unopened to review for unusual items
- Monitor your bank account online for any unusual amounts or transfers
- Conduct an annual Internal Controls Review including – Billing, FD, AP, AR and Payroll
- Mandate vacation for at least 1 week per year for everyone of 5 consecutive days
- Have payroll reports reviewed frequently



Further Employee Preventative Measures

- Conduct a pre-screening of each new employee that includes:
 - Criminal check
 - Thorough background check of prior positions and reason for leaving
 - Credit report (for positions involving cash)
- Consider bonding your employees
- These employees prey on smaller practices or practices with less sophisticated HR processes



Fraud Awareness – Types of Controls

Automated Controls - controls that automatically occur.

Examples:

Computer passwords are implemented to automatically control the access to the systems.

Manual Controls - controls that must be manually completed.

Examples:

Account reconciliations must be manually completed using the account statement and the general ledger history.

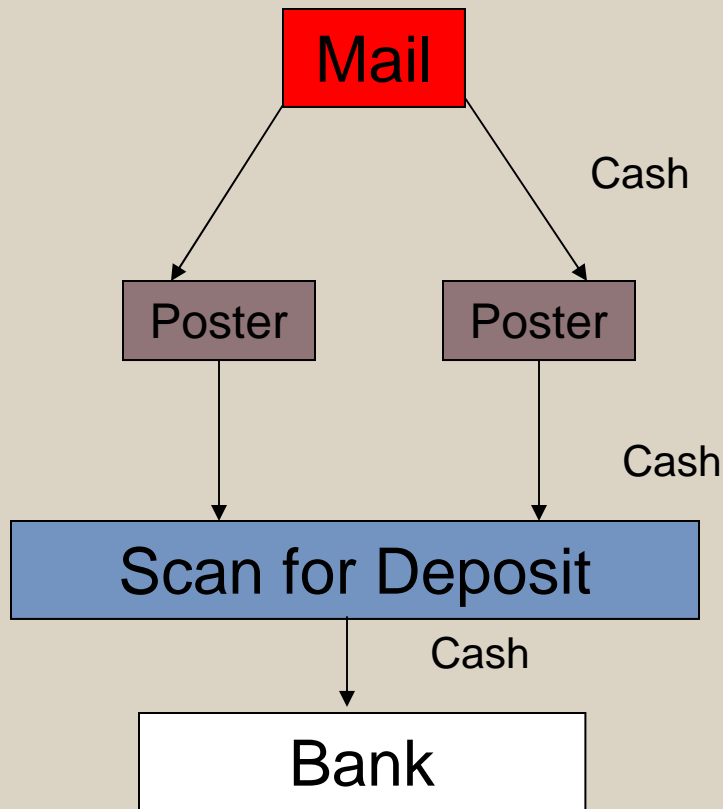


Current Methods of Cash Capture

- Mail/EFT payments
 - Mail is brought to the Business Office and payments are processed
 - ◇ When the mail comes in checks are opened and sorted
 - ◇ When ERA is received by Business Office the payment is posted and by the Office Manager is emailed that it has been posted --- this is for verification purposes that the EFT was actually deposited
 - ◇ After posting, checks are endorsed and given to the Office Manager for deposit
 - Co-payments
 - ◇ Front Desk receives the co-payments – cash and checks
 - ◇ Front Desk posts the payments and adds these to the deposit
 - Use EFT & ERA for Medicare, Medicaid, and all applicable Commercial payers



Cash Receipts



- Weakness – Person Posting is also opening the mail. Posting from live checks.
- Correction – Utilize automated check capture when the mail is opened, and have a different person making the deposit.
- Utilize internal or external lockbox
- Operations Manager verify deposit slip against bank statement electronically.
- Correction – Separation of duties so that the same person does not have control of the system and incoming mail. Scan checks before posting.

Improved Cash Handling

- Practice is currently making deposit after checks are posted
 - Use Remote Capture Deposit to scan checks before they are entered into practice management system
 - Implement internal/external lockbox process
- Practice is currently receiving payments via Electronic Funds Transfer (EFT) for some payers
- Create a daily control sheet for all monies received by practice
 - View only option for bank to verify EFT's have been deposited
 - Balancing process includes individual accountability for payments received at the front desk



Improved Balancing – Control Sheet

CASH / LOCKBOX LOG

Date _____

	LOCKBOX BATCH	LOCKBOX TOTAL	PPM	e-MDs	RECALL AMT	REFUND AMT	OTHER	INITIALS
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
	Lockbox Sub-Total							
	CO-PAY BATCH							
15								
16								
17								
18								
	Co-pay Sub-Total							
	TOTALS							



Front Desk Balancing Log

CASH RECONCILIATION REPORT

Date _____
 Verified by _____

Section I
 CASH BAG (Beginning Balance)

COIN _____
 CURRENCY _____
 TOTAL _____ Overage / Shortage _____

Note: Signatures required on both lines -Only if Cash bag has overage/shortage
 Prepared by _____
 Approved by _____

Section II

DRAWER AMOUNT TOTALS

Note: Count all cash do not separate, it does include the initial cash amount
 Coin _____
 Currency _____
 Checks (attach adding machine tape) _____
 Credit (all types) _____

Drawer Balance (includes beginning bal.) A _____

REPORT TOTALS

Note: Patient Collection Tracking Form is the "Report"
 Beginning Cash Amount (from above) _____
 Cash _____
 Checks _____
 Credit (all types) _____

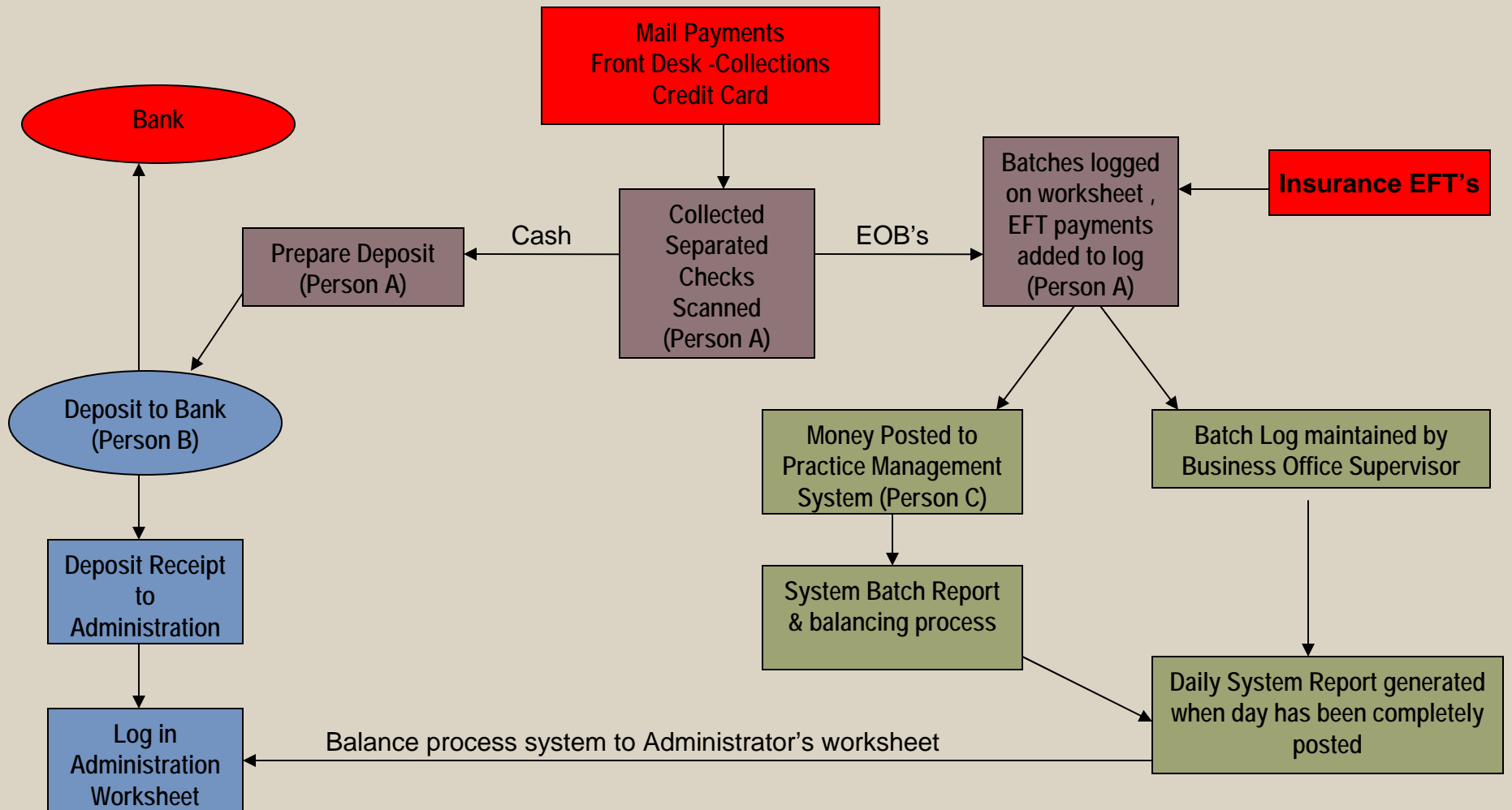
Total (must equal line A) B _____

Overage / Shortage _____

Explanation of Overage / Shortage



Internal Lockbox Flow Diagram



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Ultimately – Improved Cash Controls Offer:

- The security of sound cash controls and cash handling processes are vital for every practice
 - Practice has a greater sense of security that everything is being handled appropriately
 - Lessen the practice's risk of loss from misdirected funds
 - Includes proper posting of payments
 - Improved efficiencies will allow staff time to complete other duties



Most Effective IT Controls Include

- Robust user access controls – Passwords for each employee and system
- Screen time-out for inactive workstations
- Timely reconcilements
- Awareness
- Enforce HIPAA aspects



Questions



Questions?

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