

Financial Management and Fraud Prevention for the Allergist

Guarding Against Fraud and Embezzlement

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Disclosure

Nothing to disclose

Should You Be Concerned About Fraud & Embezzlement?

- Medical practices theft and embezzlement are widespread, amounting to \$25 billion in annual losses for (*Medical Economics 2017*)
- A Medical Group Management Association survey found that 83% of practice administrators had been associated with a practice with employee theft or embezzlement. In addition, embezzlement can remain undetected for long periods.

2020 Report to the Nations on Occupational Fraud & Abuse

- Global survey done by the ACFE (Association of Certified Fraud Examiners)
- Measuring the costs of occupational fraud
 - 5 percent lost to fraud
 - \$4.5 trillion worldwide

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand
Banking and financial services	364	8%	10%	18%
Government and public administration	189	18%	5%	9%
Manufacturing	177	23%	5%	6%
Health care	145	33%	10%	10%

Report to the Nations on Occupational Fraud & Abuse

- Most fraudsters are first time offenders with clean employment histories
- 86% of fraudsters had never been charged or convicted of a fraud-related offense

What Size Medical Practice Is At Risk For Fraud & Embezzlement?

- Any medical practice, regardless of size, specialty or location, is a potential victim of employee fraud and embezzlement
- A study conducted by the Association of Certified Fraud Examiners found that organizations with fewer than 100 employees are most likely to suffer internal fraud
- **75% of all medical practices and hospitals reported fraud and embezzlement**

Why Are Medical Practices Are Easy Target For Employee Embezzlement?

- Physician's caring & trusting personality & the lack of business training is a huge factor
- Staff members who tend to stay with the practice for many years get automatic trust and become physicians' second family
- Physicians notoriously overbook their schedules because of the no shows; patients show up, MDs and staff overwhelmed, fraudsters heaven made
- Lax or non-existing financial controls
- Cash and personal check transactions for copays, deductibles,
- Complex business structure; busy physician schedule, too many vendors and expenses

Why Are Medical Practices Are Easy Target For Employee Embezzlement?

- Medical practices have two financial accounting programs; financial operating software like QuickBooks and a billing software
- Fraudsters can target both accounts; operating accounts usually handled by office manager(s), Several employees can normally access the billing program.
- Physicians tend to have no knowledge about either programs and for sure not the billing program.
- Complex EOBs: Physicians need to understand the EOB (Explanation Of Benefits). Remember the fraudster must keep patients happy and quickly adjudicate their accounts so they don't receive bills

Fraudsters' Methods and Remedies

- The human mind creativity has no limits when it comes to fraudulent behavior,
- Cash; Petty cash and cash register / drawer is where most fraudsters “test the water” by taking small amounts of money “baby steps” and if caught they call it “borrowing”
- Cash; cash payments; fraudsters can take the cash and post payment as credit card payment OR a write off. Solutions; daily reconciling, daily credit card print out, don't ever refund credit cards (write checks approved by the supervisor), WRITE OFF authorization and security (physician / manager's role)

Fraudsters' Methods and Remedies

- Several ways to defraud using the medical practice billing program:
- Incorrect payment posting; Practices reconcile the monthly income from the billing program with the monthly deposits in QuickBooks. If the fraudster back post the payment (last month or any prior date) and then remove the funds. The patient account will be correct, the current monthly accounts will be correct BUT the end of the year will be different. (Practices must go back and regenerate the monthly accounts not just adding the sum in Excel)
- Banks allow deposits by ATM and smartphones; fraudsters can easily divert and deposit checks made to the practice into personal accounts or a SHELL-COMPANY account. Solutions?

Fraudsters' Methods and Remedies

- Payroll
 - Payroll padding; adding bonuses, adding additional vacation (taking vacation but not deducting vacation time), adding additional hours more than worked (Don't rely on timecard only) Solutions?

- Payroll
 - Paying a family member, boyfriend, a salary as an employee all payments sent DIRECT DEPOSITS (common in multiple offices practices), Complex website payroll services make it much easier to embezzle. Solutions?

Fraudsters' Methods and Remedies

- Expenses:
 - Paying personal cell phone, electrical, internet, insurance, personal taxes, condo association fees, even car payments and mortgages from the practice (usually it is more common when the manager is the fraudster, *be aware as it could be a senior partner*). This usually done slowly to prevent obvious jump in overhead expenses and such employees stay many years with practice

 - Creating a shell company vendor(s) and creatively paying them *different amounts* every few months, when they get confident it becomes more frequent and larger amounts.

 - Paying a legitimate invoice expense by both credit card and a check (e.g. phone) then attaching the check to their own personal bill and getting personal refunds for overpayment

Fraudsters' Methods and Remedies

- What can you do to prevent embezzlement via expenses route?
 - In a multi physician group, assign one doctor to sign checks.
 - Signing checks is never an emergency task, don't sign checks while hassling between patients
 - Never sign checks without invoices
 - Initial or sign ORIGINAL invoices when signing checks, so if the invoice appears with the credit card bill you will know and do the same with credit card invoices
 - Never use signature stamp

Fraudsters' Methods and Remedies

- What can you do to prevent embezzlement via expenses route?
 - Monthly bank statements should be opened by the physician, you can have it sent to your home address. Request or download actual checks or copies
 - Check vendor names and signatures on all checks (DON'T depend on banks)
 - Check all electronic transfers (ET) out of the business accounts
 - Be aware of the existence of "legal" saving account(s)
 - Review office credit card(s) expenses at the end of EVERY MONTH, must have all ORIGINAL invoices when doing that.

Fraudsters' Methods and Remedies

- QuickBooks is a great financial program, DON'T make it the fraudsters' best friend. It makes embezzlement "pretty easy" for a fraudster with knowledge in QuickBooks (the same for all other financial programs)
- e.g.: Fraudster can write a check in QuickBooks paid to Lexus for \$745.75 then go back and change the payee to Hollister Stier minutes after printing the check and every week or month chooses a different but commonly used vendor (actual case), and yes, your signature in the check can be forged
- In the above example the fraudster can just delete the check from registry and then change the amounts in other legitimate checks totaling the \$745.75 so the monthly balance will be accurate
- Solution:
 - Know QuickBooks well (you can master it in 2 hours)
 - MUST assign passwords and security levels
 - You must be the Administrator user, then assign anyone their passwords and the level of securities. No one can void or alter a check except YOU, no one can see what you have in the bank

Banks Will Not Protect Your Accounts

- Example: There are several forged checks, all from the same person, against your business account. The bank claims that as more than 60 days have elapsed, it doesn't have to do anything. Is this true?
- **Unfortunately, that is true AND MORE**
- Must visit this website: <https://www.helpwithmybank.gov/get-answers/>

Depending on “One Time” Background Check & Employment History In Preventing Fraud in Your Medical Practice

FIG. 39 Do perpetrators tend to have prior fraud convictions?

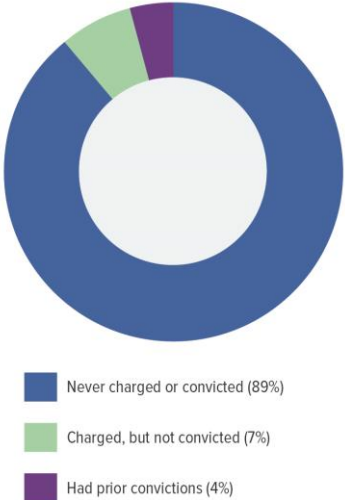
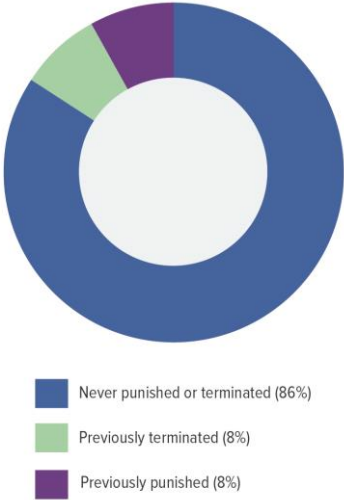


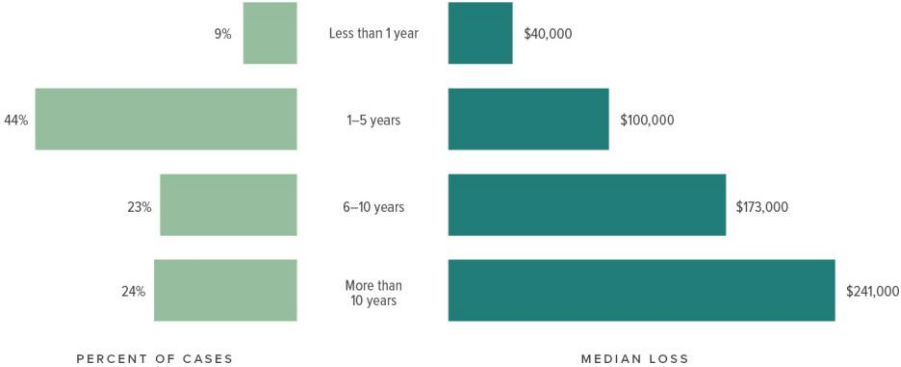
FIG. 40 Do perpetrators tend to have prior employment-related disciplinary actions for fraud?



Depending on Employee Tenure
& Relying on One Individual in
Upper Management To Prevent
Fraud in Your Medical Practice

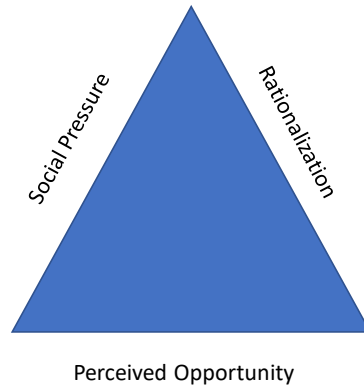
How Does The Perpetrator's Tenure Relate To Occupational Fraud?

FIG. 26 How does the perpetrator's tenure relate to occupational fraud?



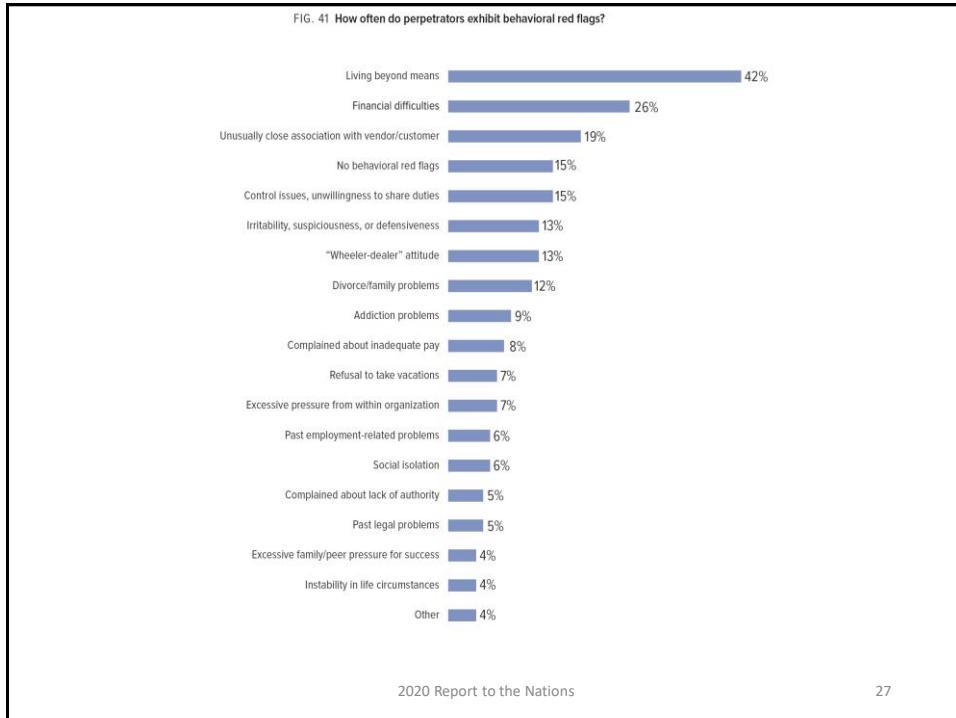
Why Do Fraudsters Commit Occupational Fraud?

The Fraud Triangle



Perceived Opportunity (Ability to Get Away With it)

- ALWAYS REMEMBER You do have complete control over "Perceived opportunity"
- The threat of likely detection is one of the most powerful factors in fraud prevention, it eliminates the fraudster's perceived opportunity



What Do You Do When You Discover a Problem?

- DO NOT ACCUSE but investigate (start digging) “unannounced and quietly”
- Discuss it with your accountant and legal counsel. However, accountants are generally not helpful to discover the fraud
- Have books reviewed by a specialized forensic accountant
- Conduct a fair and thorough investigation
- Interview everyone involved (as many times as needed), have a witness present

Thank you

Essential Financial Reports
to Keep Your Practice on
Track

Nick Hernandez, MBA, FACHE

CEO at ABISA, LLC

Disclosure

Nothing to disclose

In a Nutshell

- Measure what matters
 - Find out key essentials for your practice.
- Keep it simple
 - Simple to operate.
 - Simple to understand.
 - Simple to action.

Overhead Ratio

Total Operating Expenses
(minus provider salaries & benefits)

Total Collections

Staff Ratio

Total FTE Employees

Total FTE Providers

Individual Category Expense Ratio

Individual Expense (by category)

Total Collections

Laboratory Expense Ratio

Total Monthly Lab Expense

Monthly Net Charges for Lab-Related CPT Codes

Average Cost Per Patient

Total Expenses Per Month

Total Monthly Patient Visits

Payor Mix Ratio

Individual Payor Receipts

Total Receipts

Average Revenue Per Patient

Total Monthly Collections

Total Monthly Patient Visits

Average Revenue Per Day

Average Charges for Last 3 Months

Number of Business Days in Last 3 Months

Accounts Receivable Per FTE Physician

Outstanding Accounts Receivable

Number of FTE Physicians in Practice

First-Pass Resolution Rate

Total Number of Claims Paid

Total Number of Claims Submitted

Percentage of Accounts Receivable >120 Days

Dollar Value of Accounts Receivable >120 Days

Dollar Value of Total Accounts Receivable

Days In Accounts Receivable

Outstanding Accounts Receivable

Average Adjusted Charges Per Day

Gross Collections Ratio

$$\frac{\text{Total Collections}}{\text{Total Gross Charges}}$$

Net Collections Ratio

$$\frac{\text{Total Collections}}{\text{Total Gross Charges (after write-offs or adjustments)}}$$