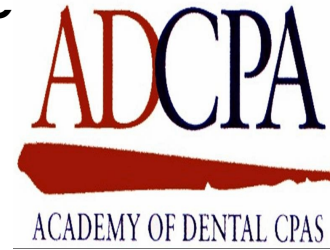


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EMBEZZLEMENT IN A PROFESSIONAL PRACTICE

I. Statistics

A. Professional offices

1. At least one out of every 6 professionals in private practice will be a victim of embezzlement.
2. At least 67% of those who embezzle are repeaters.
3. Over 70% of offenders do not have previous criminal records.

II. Dealing with embezzlement

A. Signs of possible embezzlement

1. Deteriorating financial condition of the employee (spouse & employee).
2. Employee does not like to take scheduled vacations or takes only a day or two off at a time.
3. Employee constantly works overtime, takes work home, is seldom absent.
4. Employee shows emotional stress about family or personal financial problems.
5. Employee openly resents professional's income, lifestyle, size of fees charged, etc. The employee feels they are entitled to more.
6. Employee abruptly changes spending pattern (new car, house, boat, etc.).
7. Employee carries large amounts of cash -- loans money to others.
8. Chronic borrowing of money by employee to disguise the theft.
9. Employee wants domain and control of their work station and openly resents any overseeing of their work and/or implementation of new financial accounting controls.
10. Chronic systems issues resulting in lost data and sloppy record keeping.
11. Resistance or refusal to implement new systems and procedures.

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B. Causes of embezzlement

1. Blind trust of the employee by the professional.
2. Professional does not keep abreast of the business aspects of his/her practice due to always trusting everyone.
3. Professional hires new employees without checking references or using background research companies.
4. Professional sets a bad example by taking money from petty cash or daily cash receipts. All cash should be deposited.
5. Same employee receives and sorts the mail, posts day sheets (or computer), makes deposits and posts patient adjustments. There should be a segregation of duties.
6. Employee feels underpaid and is resentful.
7. Employee lives beyond his/her means.
8. Employee has poor self-esteem.
9. Employee witnesses weak internal accounting controls of practice.
10. Employee thinks the professional makes too much money.
11. Professional is often away from the office -- employee handles the phone, mail, patients' cash, checks and credit cards.
12. Professional is misled by the employee who is overly dedicated, trustworthy, takes no vacation, etc.

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C. Methods of embezzlement

1. Employee takes a cash payment from the patient/client and doesn't post the payment but issues a fictitious credit.
2. Employee takes a cash payment from patient A and then patient B pays but it is credited back to patient A, etc., (lapping).
3. Employee gives the patient a fictitious receipt for payment.
4. Employee gives busy professional a stack of checks to sign and includes an extra check and does not include the support for such checks.
5. Refund check is made out to a fictitious patient. Employee has previously opened an account under that patient's name.
6. Employee writes off an account as uncollectible, then pockets the cash payment.
7. Employee takes money from petty cash, knowing that the fund is not carefully checked.
8. Employee takes cash payment, records it on the patient ledger card, but not on the day sheet. (Procedure may vary with practice management software.)
9. Employee purposely destroys the office records to facilitate looting the practice.
10. Employee is given the power to sign checks and makes checks to non-existent

suppliers whose accounts are set up in the employee's name. Look for PO Box addresses.

11. On the way to the bank, the employee keeps some of the cash and makes new deposit slips for a lesser amount.
12. Employee does not bill patient whose payment has been taken and thus not posted.
13. Employee will substitute the insurance check payment for cash taken and does not post the insurance payment as being received.
14. Employee will remove any patient complaint about failure to credit payment from the incoming mail/phone call.
15. Employee makes a rubber stamp with the professional's signature and uses it to make an extra paycheck to himself/herself.
16. Employee bills the patient below the actual amount and splits the difference.
17. Employee raises the amount on checks after they have been approved and signed.
18. Employee purposely pays bill twice -- then pockets the resulting refund.
19. Employee forges the professional's signature to a check.
20. Employee opens a checking account in the name of the professional and is the only one who can sign on the account since employee requested the signature cards on behalf of the professional. Over time, the employee segregates checks from patients, insurance companies, etc., and makes deposits to the 2nd account they set up.
21. Employee turns off the computer "audit trail".
22. On all daily deposits, the patient name should be listed along with a copy of the patient checks to support such deposit.
23. Employee posts negative production to patient's account.
24. Employee issues credit to prior periods to offset current treatment.
25. Gross payroll increased with increased withholdings, resulting in same net checks.
26. Employee uses practice debit card for personal purchases.

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D. Safeguards

1. Professional should make random spot checks monthly by making a private list of patient names and fees for those he/she treated on a given day. The professional list is then compared against day sheets, ledger card posting, and/or computer records. Missing entries should be investigated quietly and behind the scenes.
2. Professional should spot check by sending a statement to a bad-debt patient whose account has been written off. If they have paid, the billing may result in

- an indignant reply.
3. Professional should have the day's mail delivered to them unopened.
 4. Only the professional should be authorized to write-off an account. Such write off's should be initialed by the professional.
 5. Only the professional should be authorized to write-off accounts through computer billing services.
 6. A sign stating "Please retain your receipt for all payments made at time of service" should be placed at the reception window.
 7. A duplicate receipt book should be used. Original copy should be given to patient. All receipts should be pre-numbered and pre-printed with such numbers.
 8. Charge slips should be pre-numbered. At the end of the day, verify the numerical sequence of numbered slips to insure that there are no unaccounted for voids among the slips.
 9. Have the monthly bank statements mailed to the professional's home address or the CPA's business address .
 10. Account payable checks should not be signed by the professional unless a bill or stamped invoice is attached showing that services or supplies were received and who approved them.
 11. The professional should not sign a refund check to a patient unless he/she sees the patient account card or computer record that relates to the refund.
 12. Every disbursement from petty cash should require documentation. The petty cash fund should only be replenished with a check made out to "petty cash".
 13. Employees should be bonded with a blanket bond. Let them know they are being bonded.
 14. Check references before a new employee is hired. Ask the employee if there is any objection to being bonded.
 15. Pay employees competitive salaries. Consider appropriate raises. Provide fringe benefits as practical.
 16. Consider a monthly check of patient ledger card balances versus day sheet balances. Handle in a similar manner for computer records. Investigate significant variances.
 17. Always prepare daily deposit slips and bank deposits. Attach the validated daily deposit ticket to the day sheet along with the credit card batch out slip to support the day's collections.
 18. Have a surprise audit conducted by an outside CPA firm.
 19. Segregate employees' financial responsibilities- -posting the daily production, cash receipts, patient adjustments.
 20. Consider using a check imprinting machine.
 21. On a daily basis, print the day sheet for the professional to take home for their individual review of the day's activities.
 22. Periodically re-run day sheets from prior periods to compare to original days run.
 23. Have a CPA audit on a quarterly basis a random sample of patients. A confirmation letter is sent by the accountant showing the balance due on the

account. The patient replies directly to the accountant's office in the event of discrepancies.

24. Require that payroll checks be approved and signed time slips for any overtime payments.
25. Professional should learn enough about the details of the internal accounting system to let the employees know they are interested in the financial affairs of the practice.
26. Each employee should be required to use his earned vacation time each year.
27. Front desk jobs should be rotated at unexpected intervals so that successor has a chance to review predecessor's records.
28. Professional should not accept payment directly from patients/clients, borrow cash from office receipts, or otherwise fail to assure that all financial transactions are accounted for.
29. Employees should not be allowed to sign checks for the professional.
30. If embezzlement is suspected, notify your attorney first, and then bonding company, accountant and/or consultant.
31. Cash and checks should be placed in the office locked cashbox immediately.
32. If funds are removed from the cashbox by the professional, a personal check should be left for the amount taken indicating the patient's name.
33. The professional should be above reproach in his/her conduct.
34. Be sure to ask your business insurance agent about a 3-D policy (destruction, disappearance and dishonesty) of business records.
35. In your employee manual, mention you will prosecute to the fullest extent of the law and that employee embezzlement will not be tolerated.

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