

Employee Dishonesty: Protecting Your Practice from the Inside

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Case Scenario¹

Your staff bookkeeper suddenly left the office for several weeks for an emergency procedure. For 18 years, you have trusted your bookkeeper implicitly to take care of the finances for your small medical office. She has never been away for so long, but her extended illness requires that you hire a temporary accountant. In the bookkeeper's absence, the accountant notices an inconsistency in the accounting and traces it back to discover several more.

The accountant recommends you

hire a forensic accountant. An in-depth audit reveals that your bookkeeper has been embezzling business funds. The loss from this embezzlement is estimated at \$425,000.

While the news is devastating, unfortunately, it's all too common. Small businesses are particularly susceptible to this type of loss. According to **Modern Medicine**, "Small business owners, which include physicians, [lose approximately] \$20 to \$40 billion annually, with 75% of the crimes going unnoticed."²

Prevention

Taking precautions does not mean you have to sacrifice trust in your employees' work. Let them know that you trust them to do a good job. At the same time, let them know explicitly that you hold them accountable for their actions. There are some simple measures you can take to avoid potential fraud and discourage a would-be thief while still maintaining a comfortable working environment:

1. Hire an outside accountant. A periodic review by an outside source can help detect fraudulent transactions. It also can help discourage a would-be

thief to know that someone will be reviewing their work.

2. Require regular vacations. An employee trying to hide fraudulent transactions may be afraid of being "discovered" when others take over the accounting duties. Knowing that they must take time off can discourage the fraudulent behavior altogether.
3. Review your bank statements. Keeping an eye on the statements will let you know when something doesn't look right. Catching a fraudulent transaction when it first happens can help prevent many more to follow, thereby minimizing your loss.
4. Don't leave the job to one person. If your employees share the work (e.g., one takes the payment, while another records it), it will be more difficult for them to get away with funneling funds from the organization. The risk of getting caught may be enough to prevent them from stealing in the first place.

Resources

Whether you are looking to prevent employee theft in your practice or

to get some assistance in dealing with a situation that has occurred, you are not alone. These types of crimes are not uncommon, and there are resources you can turn to for assistance:

Medical Association: The Washington State Medical Association (www.wsma.org) can be an excellent resource for materials, seminars, and tools to assist you in your medical office.

Employment Insurance: Your employment practices liability policy may include online or telephone risk management services if you find yourself in a difficult situation with an employee. Taking advan-

tage of these services can help you avoid additional problems by giving you guidance in talking to your employee, or in following sound termination procedures.

Other Insurance: In the unfortunate event that you need to report a claim, you may find that you have some employee dishonesty or commercial crime coverage in your business owners or commercial property policy. Another coverage option is an employee dishonesty or fidelity bond that protects you and your practice against fraudulent or dishonest acts of persons entrusted or associated with your practice's valu-

able property or money.

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¹This case scenario is fictitious. Any resemblance to an actual case is purely coincidental.

²Baum, Neil H., MD. "Is your practice protected against embezzlement?" *Modern Medicine*. September 2009. <http://www.modernmedicine.com/modernmedicine/Modern+Medicine+Now/Is-your-practice-protected-against-embezzlement/ArticleStandard/Article/detail/624476>



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