

## **Internal Controls: Why You Need Them**

Small organizations are disproportionately victimized by occupational fraud. That's one of the key findings in a biannual report\* published by the Association of Certified Fraud Examiners (ACFE).

Why are small organizations targeted? Because they are much less likely than large organizations to have anti-fraud controls in place.

There is no way to totally prevent fraud from occurring. However, it is possible to reduce the possibility that fraudulent behavior will go unnoticed by putting controls in place. The sooner a fraud is discovered, the smaller the potential loss may be.

### **Key Controls**

Regardless of how long your staff members have been with your practice or how well you know them, it's a mistake to think that fraud can't happen. It can. Incorporating proper internal controls in your billing, reimbursement, and accounts payable procedures will help provide the protection your practice needs. Here are several steps every medical practice can take to put controls in place.

- o Establish procedures for handling cash payments to ensure they are properly accounted for and to help safeguard against potential theft.
- o Divide duties involving money between two or more assistants. Never allow the same person to open the mail, post payments, and make out deposit slips.
- o Require employees who deal with practice finances to take vacations.
- o Prenumber superbills and make sure they are accounted for on a daily basis.
- o Make sure a physician is in charge of overseeing the practice's finances. Responsibilities should include periodically reviewing the work done by the clerical staff. Open the mail periodically and see if the day's receipts match the amounts typically reported by your clerks at a similar time of the month.
- o Review patient ledgers and look for balances that have been written off. Establish a policy that requires a physician's authorization before an account can be written off as an uncollectible receivable.
- o Require that checks over a certain amount be signed by a physician.
- o Have a physician review and approve all vendor invoices before they are paid.
- o Carefully inspect bank statements on a regular basis and spot-check deposits against receipts.

o Review canceled checks, including endorsements.

### **Additional Precautions**

In most cases, individuals only commit fraud if an opportunity exists and they think that they won't be caught. In short, if they think it is safe. You can be proactive by taking steps that make the workplace unsafe for fraud. Conducting surprise audits is an effective way to discourage fraud. Another is to talk openly about fraud crimes. Tell your staff why certain controls are in place and discuss occupational fraud in general. Let your employees know they can speak confidentially with you or another physician should they suspect something.

Be aware of behavioral signs that something may be amiss, too. Pay particular attention to employees who are living beyond their means, struggling with financial issues, gambling, or unwilling to share workplace duties.

\* 2010 Report to the Nations

### **Three Contributing Factors**

Specialists have identified three factors that contribute, when all are present, to fraud crimes.

Financial need or pressure. The recent recession has created -- in some cases -- considerable hardship for many people. Perceived incentives can vary widely among individuals and is highly subjective.

Opportunity. Without opportunity, no crime can be committed.

Rationalization. The person committing fraud must be able to "self-justify" or rationalize the crime. Thefts often begin with a relatively small rationalization -- he or she is just "borrowing" the money to get through a rough patch, for example. However, small rationalizations often escalate into larger thefts.