

Medical Practice Fraud – Billing Schemes

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A recent study by the Association of Certified Fraud Examiners found that employee fraud in healthcare increased 13.5% between 2010 and 2012. Billing, corruption and expense reimbursement schemes were the top three fraud schemes utilized with an average financial loss of \$200,000. 31% of all fraud occurs in organizations with less than 100 employees. When you consider one out of every three companies is a victim of fraud, that statistic a lot closer to home.

So how do you protect your practice while still doing what you to do, which is taking care of your patients? Simple, that’s through education, awareness and creating a perception of controls. Let’s being by looking at the employee psyche’ and understanding some the behavioral red flags to be aware of.

Healthcare Employee Fraud 92 Cases		
Fraud Scheme	Number of cases	Percent of Cases
Billing	33	35.9%
Corruption	28	30.4%
Expense Reimbursement	19	20.7%
Skimming	18	19.6%
Check Tampering	17	18.5%
Non Cash	17	18.5%
Cash Larceny	16	17.4%
Payroll	14	15.2%
Cash On Hand	14	15.2%
Financial Statement Fraud	9	9.8%
Register Disbursements	6	6.5%

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Why do employees steal?

Understanding “why” an employee steals is half the battle. In order for an employee to commit a fraudulent act, three components need to be present: a perceived need, opportunity to commit the crime and the ability to rationalize their own actions. From my experience, the rationalization is the primary driver of fraud as the individual must first convince themselves that it’s ok to take or “borrow” the company assets. Once they are able to rationalize their behavior, the employee will then exploit an opportunity that currently exists (ie: lack of management review or poor policies in place) or create an opportunity to commit the crime.

Lack of internal controls, over riding of existing internal controls, lack of management oversight and poor tone at the top were cited as the primary weakness within organizations which lead to employee fraud. These types of control weaknesses create what I call “the window of opportunity” and make it easy for employees to steal from the employer.

What are some behavioral red flags to be aware of?

No doubt the employees within your practice are hard workers and you trust them to handle the day to day operations. But have you ever considered the 10 year trusted office manager who never takes a vacation or the claims processor who knows the billing system inside and out as a potential red flag? What about the employee who constantly complains about financial stresses but lives outside of their means; or the employee who has a lot of family pressures? Have you ever considered any of these as potential red flags? If not, you should. Other red flags to be aware of include:

- Unwillingness to share in their duties
- Employees who want / have too much control
- Employees with financial or family pressures
- Recent change in behavior (irritability, defensiveness, etc.)
- Complaining about inadequate pay
- Poor company culture in the practice

So how do you protect your practice?

The most cost effective way to deter fraudulent activity and limit fraud losses is to close “the window of opportunity”. Every organization that has employees should have in place sound policies and procedures that make sense, not too strict but not too loose either. Policies and procedures with checks and balances built into them are key to building a solid operational foundation. Next, it is important for the owners of the practice to “set the tone” at the top. Creating a positive company culture where employees feel valued and empowered will significantly reduce any temptation to steal. Individuals, who hold their employer in high regard, will have a much harder time rationalizing their behavior to act against the company. Companies with a strong organizational culture have fewer incidents of employee fraud. This has been proven time and time again.

As the practice leader, “inspect what you expect”. Be hands on with running your business. Some perception of controls include:

- Periodically audit payroll records, review what’s being billed to Medicare / Medicaid
- Inspect vendor payments (are there duplicate payments)
- Reconcile bank statements periodically or have your CPA reconcile bank statements monthly
- Review your statement of Cash Flow. Does it tie to the cash on hand in the bank at the end of the month?

Another perception of control method is to ask questions that you already know the answer to. This will send the message to your employees that you are in touch with the operations of the business. In addition, by asking questions you know the answer to, it will help you to identify if any of your employees are being dishonest with you. Dishonesty alone doesn’t mean someone is stealing; it could be a performance issue instead of a theft issue. Having said that, dishonesty can lead to theft so this is a red flag that needs to be addressed right away to deter and squash future negative behaviors. With the crackdown on fraud, as physicians, you can be held both criminally and civilly liable for the actions of your people, even if you didn’t have any knowledge of their fraud. Protect yourself!

Lastly, two key points I want to leave you with:

1) Implement internal controls. By having controls in place this will reduce the amount of time it takes to detect fraudulent activity (as illustrated in the chart below) and will significantly reduce your dollar loss. Internal controls can be detective, corrective or preventive in nature, but all are extremely important.

Duration of Fraud Based on Presence of Anti Fraud Control				
Control	Percent of Cases Implemented	Control In Place	Control NOT in Place	Percent Reduction
Job Rotation / Mandatory Vacation	16.7%	9 months	24 months	62.5%
Rewards for Whistleblowers	9.4%	9 months	22 months	59.1%
Surprise Audits	32.2%	10 months	24 months	58.3%
Code of Conduct	79.0%	14 months	30 months	53.3%
Anti Fraud Policy	48.6%	12 months	24 months	50.0%
External Audit	67.5%	12 months	24 months	50.0%
Formal Fraud Risk Assessment	35.5%	12 months	24 months	50.0%
Fraud Training for Employees	46.8%	12 months	24 months	50.0%
Fraud Training for Managers / Execs	47.4%	12 months	24 months	50.0%
Hotline	54.0%	12 months	24 months	50.0%
Management Certification of F/S	60.5%	12 months	24 months	50.0%
Independent Audit Committee	59.8%	13 months	24 months	45.8%
Internal Audit	69.4%	13 months	24 months	45.8%
Management Review	68.5%	14 months	24 months	41.7%
Employee Support Programs	57.5%	16 months	21 months	23.8%
External Audit of Financial Statements	80.1%	17 months	24 months	29.2%

2) Test your controls by conducting a fraud risk assessment to identify what risks are present in your company which can still be exploited. Inspect what you expect and shut the window on fraud, don't become a statistic!

Jacque James is President of Asset Recovery Associates, LLC, a leading fraud prevention and detection firm based in St. Louis. Jacque has over 18 years of law enforcement and corporate investigations experience dealing with fraud and employee issues. For more information, Jacque can be contacted at jjames@assetrecoverystl.com or 636-346-9273.