

## A Case Study in Medical Office Fraud

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On July 1<sup>st</sup>, Dr. Nabler's office manager advised him that she was retiring as of August 31<sup>st</sup>. She was giving him two months notice so that he could find a replacement and have her on hand for a week or two to smooth the transition.

Dr. Nabler had initially worked in the practice with Dr. Traight. Dr. Traight had handled all of the finances for the partnership and instituted all the office and billing procedures that were followed even after he retired 6 years ago.

After not doing much for the first month, Dr. Nabler was rushed to hire someone before the retiring office manager left. He placed a few ads in the newspaper and then started interviewing. After three or four rushed interviews, Dr. Nabler interviewed Mr. Green. Mr. Green had extensive experience working as an office manager for a number of local physicians. Mr. Green advised that he had a history of upgrading the billing, insurance and collection efficiencies in all the offices he worked. He assured Dr. Nabler, that he would be able to assist him in becoming more profitable. Best of all, Mr. Green was available to start almost immediately.

Since Mr. Green's resume looked so solid, Dr. Nabler didn't bother to check Mr. Green's references, nor did he make any inquiries to other doctors he knew regarding Mr. Green's work. Mr. Green started the day before the prior office manager finally retired on August 31<sup>st</sup>.

Over the next four months, after Mr. Green started, he was true to his word. He had analyzed the work flow and based on his recommendations, Dr. Nabler was able to cut back on two of his administrative people. Mr. Green was so efficient; he was doing their jobs as well as his own. He now handled the cash receipts, cash disbursements, reconciled the checking account, made collection calls and handled all of the insurance company billing problems and disputes.

Since Dr. Nabler had never been particularly involved with the day to day operations, Mr. Green seemed like a dream come true. He had significantly cut back on staff expense and Dr. Nabler was going to use that extra money for a down payment on a vacation home at the end of the year.

After reviewing brochures from many different exotic locales throughout the year, Dr. Nabler sat down with his accountant at the end of the year. He was expecting that he would have earned significantly more this year than the prior year. However, he was stunned to find out that he had actually made slightly less than the prior year.

Dr. Nabler was stunned. He went back to Mr. Green to find out what had happened. Mr. Green assured him that in actuality he had made about \$100,000 more. He claimed this was all related to late insurance company reimbursements of claims and fixing the lingering problems that were never addressed by the prior office manager. The insurance companies were making them jump through extra hoops to get paid. Mr. Green assured him that it would all turn around this next year.

At the annual convention he attended with other physicians, Dr. Nabler ran into one of Mr. Green's prior employers. He chided him for letting such a go getter get away. The other Doctor just shrugged and said, "Have you actually seen any improvement in the cash you are taking home?"

Dumb founded, Dr. Nabler began to wonder about the results of the last year. He finally called a couple of Mr. Green's references. Although none of them said anything directly negative, none of them gave Mr. Green a glowing reference. Dr. Nabler decided to call in a CPA to review the billing, collections, bank account and insurance records. After an initial sample of cases was analyzed, the accountant found numerous weaknesses in the internal control system as well as serious errors and irregularities in the limited sample of records. The CPA recommended that Dr. Nabler retain a forensic accountant and/or fraud examiner to determine the extent of any problems and to determine if any funds were missing.

Dr. Nabler followed the CPA's advice and called in a forensic accountant. After reviewing records and interviewing the staff, including the office manager, the forensic accountant had pieced together an all too common story.

After the retiring office manager left, Mr. Green was able to circumvent the solid internal control system by "cutting costs", i.e. letting go administrative personnel who did different functions in the name of efficiency. After this "cost cutting", Mr. Green was entirely in charge of the bank account, writing checks, balancing the account, collecting money, insurance submissions, accounts receivables, aging reports etc.

When questioned, Mr. Green denied everything. He indicated that he would not allow himself to be accused this way and left the office. He filed a stress disability lawsuit the next day.

Based on the records and interviews, the forensic accountant pieced together a tangled complicated web of financial transactions all designed to funnel money to Mr. Green, while at the same time obscuring the diversion with bogus records, insurance claims and misapplied payments.

Mr. Green had initially taken some of the cash co-pays. As his cash needs expanded, he began collecting insurance reimbursement checks and cashing them. Finally, he began submitting invoices from non-existent companies for phantom goods and services and then writing checks to them which he cashed himself.

In some cases, patients would get bills and just pay them without question, making up for some of the funds taken. Later he figured out that if he sent amounts to collections, it was typically easier for patients to pay them than to find all the records to dispute the collection efforts. Again this made up some of the shortfall.

When patients complained or did have their documentation in order, he would simply apologize to them with an excuse about insurance company reimbursement issues or billing computer problems. However, patients often would be upset about the collection efforts or billing problems and find another doctor, leading to a decline in historical patients.

So what could Dr. Nabler have done to perhaps stop this theft before it started or minimize its impact? A few of the following steps could have made a tremendous difference.

- a. Check candidates' references and job histories. In many cases employees who steal from one employer will do so again. Read between the lines in the references you are given by prior employers.
- b. Review individual expenses. Regularly review expenditures and accounts. Question any expenses which seem odd, out of line, or that you simply do not understand. These reviews may catch misconduct early. But at the very least, they are a sign to any potential fraudster that you are watching the till and may help discourage fraud.

- c. Prohibit pre-signed checks and signature stamps. All documents should require review by the appropriate parties before being signed. Look at back up supporting documentation and don't blindly sign authorizations or checks.
- d. Enforce job rotation and vacation policies. Having employees take at least five consecutive days off and allow someone else to come in and do their job while checking their work. It also sends a message that impropriety will likely be caught.
- e. Bond employees. Bonding helps companies, because they may be reimbursed for any misconduct and they then can prosecute the employees. In addition, bonding companies typically require background checks and other due diligence on employees before they will write a bond. This is another means to weed out potentially problematic employees on the front end.
- f. Issue receipts for cash collected and match the cash receipts against the cash deposited. Cash can be the easiest way to steal, it is important to monitor all cash flow.

After obtaining the forensic accountant's report, Dr. Nabler was able to defend himself from Mr. Green's stress disability claim and was also able to get the local police to prosecute Mr. Green. When word of the prosecution came out, Dr. Nabler received more than one telephone call from prior employers who now felt free to describe their own problems with Mr. Green.

As of now, Dr. Nabler's practice has begun growing again and he is earning a fair living. He is not so innocent any longer, but he is the wise and prudent master of his financial house.

Andrew Runge, CPA, CFE, CVA, MBA, ABV, has over 17 years of experience in insurance services, forensic accounting/investigation, economic damages and business valuations. He has consulted on hundreds of economic damage, lost income, bodily injury, wrongful death, employee dishonesty, construction and other insurance claims exceeding \$200 million in the United States and abroad. Andrew has prepared numerous business valuations of privately held companies as a whole and as partial interests. He has also provided forensic accounting, fraud investigation and litigation support services including assistance in case analysis, preparation for trial and expert witness testimony. He has experience with construction, insurance, manufacturing, computer, biotechnology, medical, hotel and hospitality, farming and animal husbandry, retail, mining and other industries.

If you have any questions regarding your practices or how you can reduce the likelihood of fraud in your office, please contact Andrew Runge at 410-453-5500 to discuss.