FACTS ABOUT FRAUD

Fraud, Theft, & Embezzlement: Is it happening in your practice? Part 1

February 2019

What if your practice was experiencing very high profits, the schedule was always booked solid and you had many, many new client, but at the end of the month, you never had any cash in the bank and were struggling to make payroll each pay period? You visit with your CPA and office manager and, after a quick 30,000 ft. view of your numbers, they point out that you run several discretionary expenses through your practice and you also have a heavy debt load. That makes sense and you agree that is probably where your cash is going.

You work very hard to get your debt load under control and you completely separate your personal expenses from your business expenses, like any good business owner does. But you are still short on cash each month.

What's going on?

You start to dig deeper through the practice's books to try to make sense of it all. You run daily payment reports from your practice management software and match those with the daily deposits that cleared the bank. The majority of the reports do not match up. Strange. Then you notice that when your office manager is out on vacation and someone else is doing the daily deposits, the numbers match perfectly every time. Could this mean what you think it means? Surely not! Your office manager is a family friend who has been with the practice forever. You think, "No way! That kind of thing can't happen to me… or can it…?" YES! Yes, it can and it will, if you are not careful.

In a 2014 AAHA survey, a whopping **86%** of respondents said employees had stolen from their veterinary clinics. In a 2011 survey of 183 Veterinary Study Group (VSG) member practices, nearly **68%** reported being a victim of fraud, theft, or embezzlement by an employee. According to the Association of Certified Fraud Examiners (ACFE) in the 2018 Report to the Nations (https://www.acfe.com/report-to-the-nations/2018/), employee fraud goes on for an average of 16 months before detection. Even more alarming, the median loss for businesses with fewer than 100 employees was $200,000 – while the median for larger employers was $104,000. The percent of fraud caused by lack of internal controls was 42% for small businesses, according to the study.

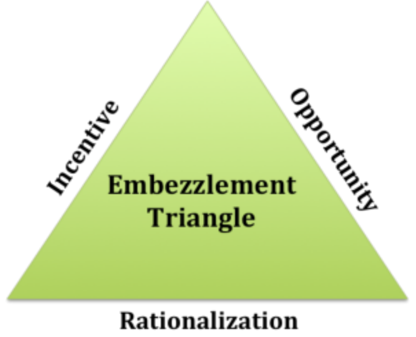
The statistics are scary! Veterinary practices of all shapes and sizes are at risk. Family members, trusted friends, legacy employees – even some owners are capable of stealing from the business. Have you heard of the 10-10-80 rule? Fraud prevention experts cite that10 percent of people will never steal no matter what; another10 percent of people will steal at any given opportunity; and the other 80 percent may steal depending on how they rationalize a particular situation.

Characteristics of employees who steal

According to the ACFE report, 54% of fraudsters are women between the ages of 31 and 45, and they are usually long-term and trusted employees. Other characteristics of employees who steal include those with excessive spending habits, who live beyond their means, and have unusually close relationships with vendors or clients. Employees who have excessive control issues or behavior irregularities, who refuse to take vacation and continually work overtime could be up to no good. Employees who are disgruntle or feel entitled are also likely to commit fraud.

Why employees steal

Unfortunately, there are many reasons why employees steal. The Embezzlement triangle is a framework that explains an employee's decision to commit fraud: incentive, opportunity, and rationalization. Employees who steal experience one or all of these. The "incentive" may be created by personal financial problems such as large medical bills or an unemployed spouse. Addictions can also play a role. We had a case where the practice manager had an unhealthy addiction to the stock market and started stealing from the practice to cover his bad investments. When it comes to "opportunity", most of the time, it's simply far too easy to steal; the opportunity was too tempting to resist. Finally, many employees "rationalize" or justify the crime in their minds. They may feel entitled, justifying that they deserved the money since they haven't had a raise in several years or they aren't appreciated enough. They could also decide that the owner makes too much money and the wealth should be shared. The list goes on and on.



The embezzlement example provided above is a real life example. After an audit of the practice's financials, it was discovered that the office manager, the owner's family friend, was pocketing clients' payments instead of depositing them in the practice's bank account. She was also using the company's credit card for personal use. When she entered the credit card charges in QuickBooks, she recorded them under a drug company's name, but the credit card statement said Victoria's Secret. Since no one was reviewing or reconciling the credit card statements, she got away with it for over two years. The practice lost nearly $300,000.

Sadly, this is one of many stories we could tell, and we are sure you have heard similar horror stories. Put yourself in this practice owner's shoes. What would you do? In our next newsletter, we will provide steps you can take to prevent fraud, along with steps you can take if you already suspect it.

If you suspect that fraud could be happening in your practice, take it seriously! Don't shrug it off thinking it will never happen to you. Protect yourself, your employees, and your practice. Engage your accountant or give Summit a call. It's not paranoia; it's prudence!