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## General Comments about Financial Controls

### Factors that lead to embezzlement or fraudulent activity:

*Internal controls are poor or nonexistent. For example:*

- *Controls are stated but not enforced; lapses are allowed to occur.*
- *Offenders go unpunished.*
- *Examples of high ethical conduct are not set.*

*Individual employees have significant, personal financial pressures due to:*

- *Personal indebtedness*
- *Lifestyle behavior (excessive drinking, gambling, drug use, etc.)*
- *Extravagant living standards.*

*Employees believe physicians are greedy and that they do not share profits with the employees.*

*Employees hold the attitude that "they'll never miss it."*

### What are some the things you should watch for that can be an indicator of fraud?

- *The employee who never takes vacations*
- *The employee who insists on doing everything himself/herself*
- *The employee who is obviously living beyond his/her means*
- *The employee who says, "We do all the work, and they get all the money"*
- *Two employees with access to receipts who frequently arrange to make deposits together (e.g., the employee who opens the mail and the one who prepares the bank deposit)*
- *The employee who is openly critical of the practice, and in particular, its physicians.*

## *Specific Financial Control Policies*

- 1. No employee is to have complete control over the entire sequence of cash transactions.***
- 2. Access of cash must be limited to specified employees only.***
- 3. Ensure employees who do not handle receipts or cash disbursements keep accounting records.***
- 4. If segregation of duties is impractical, make sure all work is reviewed at least quarterly.***
- 5. Have outside accountants perform periodic test checks and auditing reviews.***
- 6. Review contractual assignments, daily activity reports and appointment calendars.***
- 7. Periodically follow a random sampling of patients through the office from the charge ticket and the day sheet to the bank deposit.***
- 8. Balance all bank accounts monthly.***
- 9. Used pre-numbered checks and superbills. Account for breaks in sequence when balancing accounts.***
- 10. Keep records of all cash receipts and deposit them daily. Never pay bills out of undeposited receipts.***
- 11. Compare cash receipts posted into the computerized system to the cash actually deposited in the bank.***
- 12. Keep tight controls over petty cash. Make cash payments by check whenever possible.***
- 13. Make sure the employee who signs checks is not the same employee who makes bank deposits and that the check signer has the opportunity to review supporting documentation (i.e., invoices). Also, although it may be inconvenient at times, consider requiring "double signatures" on all checks.***
- 14. Stamp checks "For Deposit Only" when they are received.***
- 15. Require employees to take vacations. Most embezzlers are caught when they are not around to cover their tracks.***
- 16. Keep an eye on employees who are having personal problems (e.g., divorce, financial difficulty, etc.).***
- 17. Require patients to make payable to the practice, not an individual.***
- 18. Require employees to provide a computer-generated receipt to patients who make over-the-counter payment for services rendered on a different day. If a rubber stamp is used in the "pay to the order of" portion of the check, require that it be stamped in the presence of the patient who is paying. Ask patients to fill out the line on the check indicating for what the payment is being made.***
- 19. Purchase bonding insurance for employees.***
- 20. Follow up past due accounts promptly.***
- 21. All payments received through the mail should be logged in a journal before they're given to a separate employee who will post the payments into the computer system. The manager should reconcile the journal list and the deposit slip every day.***
- 22. Procedures for handling cash should be clearly defined and the responsibilities assigned specifically to a designated employee. It is recommended that these job functions be rotated on a periodic basis.***
- 23. The function of cash collections and cash disbursements should be assigned to different employees.***
- 24. The handling of cash should be totally separate from records maintenance. Thus the employee opening the mail, counting the receipts and making the daily deposit should not be posting those receipts against the accounts receivable.***

25. ***Someone who does not handle the cash or maintain the accounting records should complete all bank account reconciliation's. Preferably, an outside accountant or CPA who regularly prepares financial statements for the practice. All staff members, including the office manager, should be accountable to someone. This establishes accountability even if it is only to an outside consultant.***
26. ***All employees involved in the handling of cash for the accounting records must take periodic vacations. During this absence, another employee should handle those functions. Periodic, unannounced job shifting should occur to expose or possibly prevent collusion.***
27. ***All employees handling cash or accounting records should be bonded. The need for this varies with the size of the practice and individual situation. Consider purchasing office overhead insurance, if feasible.***
28. ***Statements mailed to patients or other payors must be prepared and mailed by an employee other than the cashier. Include instructions on the statement about whom to call in case of questions.***
29. ***Cash payments received on the day of treatment should be charged to the accounts receivable ledger and simultaneously credited.***
30. ***At the end of each day, patient encounter forms and receipts should be collected and reconciled with the cash receipts.***
  - a. ***For cash payments on accounts remitted not at the time service was rendered, a pre-numbered duplicate receipt should be filled out with one copy given to the patient.***
  - b. ***Encounter forms should be pre-numbered and prepared for each patient expected on a given day. Account for breaks in numeric sequence.***
  - c. ***Collections should be totaled separately from mailed receipts. Attach the calculator tape to the batch of encounter forms and receipts and give them to the office manager. The total payment shown on the encounter forms and receipts should equal the total of the collected receipts minus the mailed in receipts for that day.***
  - d. ***Accounts receivable posting may be done at the time of service or at the end of the day when all encounter forms and receipts are collected.***
31. ***Copy all insurance checks and attach to the explanation of benefits.***
32. ***Patient checks should be copied and attached to a daily collections worksheet.***
33. ***Manage cash flow daily. A basic summary sheet to track cash flow can be easily completed. Summarize as follows: beginning balance plus ( + ) deposits current day less (-) disbursements current day equal ( = ) ending balance. This statement should be reconciled to the practice's bank and financial statements at least monthly.***
34. ***Look at trends to anticipate cash inflow and outflow. Most practices have fairly consistent disbursements, and over time and within a particular period during the year, incoming cash is predictable.***

## *The Administrator/Office Manager Should:*

- 1. Implement an effective AR management system.*
- 2. Establish and implement a systematic billing and collections procedure and monitor its effectiveness.*
- 3. Keep current on collection efforts and make improvements as conditions change.*
- 4. Establish a standardized system for submitting and following up insurance claims.*
- 5. Implement a mechanism to monitor collection ratios, AR reports, DSO, and so on.*
- 6. Maintain a record invoices paid.*
- 7. Prepare and submit informative and timely monthly, quarterly and annual financial reports.*
- 8. Divide accounting duties among employees so that no one person has total control of all financial transactions, receipt of payments, recording of receipts, adjustments, making bank deposits and so on.*
- 9. Prepare bank deposits daily and deposit in the bank at the close of the same business day.*
- 10. Ensure that all patients paying cash on their account balance receive a receipt and that the receipt is entered onto the daily ledger.*
- 11. Check daily bank deposits against total deposits shown on the day-sheet.*
- 12. Make sure that all patients seen had charges posted.*
- 13. Limit to one person that ability to approve write-offs and insurance adjustments to patient accounts.*
- 14. Periodically pull a sample of names from the daily sign-in sheets and track the patient's name through the day-sheet, to charge tickets, ledger cards, payments and deposit tickets and make sure amounts balance with the bank statement.*
- 15. Periodically audit petty cash funds.*
- 16. Ensure that all patient insurance overpayments are rectified in a timely manner.*
- 17. Monitor all clinic receipts, payments, petty cash funds and so on.*
- 18. Make sure all charges and receipts have been accounted for correctly.*
- 19. Have the clinic accountant review all books/ledgers periodically to assist in the monitoring of the internal audit system.*
- 20. Review all write-offs/insurance adjustments.*
- 21. Monitor all clinic financial transactions.*
- 22. Be responsible for signing all clinic checks. No check will be signed without an invoice attached.*
- 23. Carefully review all invoices and initial when paid.*
- 24. Require that all bank statements be delivered unopened.*
- 25. Review all bank statements and verify that checks have the appropriate signature(s) and that checks were paid to legitimate suppliers and so forth.*