Tighten Cash Handling & Audit Controls
9 Best Practices That Reduce Embezzlement Risk

By Karen Zupko

A few years ago, we worked with an aesthetic practice whose patients frequently paid in cash. To document the amount collected, the staff made copies of the cash, fanning out the bills to show the dollar amount listed on each, but displaying the serial number of only the top bill.

We pointed out that the copying made no sense, explaining that staff could potentially pocket a patient's cash and reuse the same bills over and over again, placing them underneath the one new bill with a unique serial number. The surgeon's eyes widened. A trusting person by nature, he hadn't thought of this possibility.

Admittedly, photocopying cash is unusual (not to mention illegal, if you copy it in color). But it's one of many risky cash handling practices that we see regularly in aesthetic practices. Each is the result of loose protocols and lack of oversight. And each is preventable, with the right measures.

Here are 9 best practices to tighten your cash controls and reduce embezzlement risk.

*1. Conduct background checks on **every** employee who handles money.*

An attorney colleague is currently working on five cases involving practice or billing service employees accused of stealing. And given their situations and backgrounds, their behavior could likely have been predicted *before* they were hired.

Background checks are an essential part of hiring someone who collects and handles money. You'd be amazed at how many candidates have credit card debt and fake degrees, or have been convicted of a crime. Any candidate who will be handling your finances or dealing with patient identity data should agree to a background check prior to receiving a job offer.

Companies such as Trusted Employees (www.trustedemployees.com) offer inexpensive (about $100) background checks on prospective hires. It's a small investment with a big payoff in risk reduction.

*2. "Close" all front desk tickets or encounters, **every day.***

We often find sticky fingers at the front desk. The volume of transactions and cash collected there, as well as the lack of managerial oversight, are astounding.

"Closing" a front desk ticket or encounter means that all charges and payments are collected, posted, and reconciled against all the day's patient appointments. The risk of leaving a ticket or encounter "open" is that an employee could pocket the money he or she collects, then shred,delete, or otherwise "lose" the ticket. If you have no protocol for ensuring every encounter has been closed, you'll never be the wiser.

Over the years, we have found dozens of variations on this scheme, in all specialties. In one practice, the long-time receptionist was the culprit. She drove a recent model a Jaguar. Her husband had been out of work for over a year. No one seemed to be curious about the incongruity—except us. After observing front desk operations, we learned that encounter tickets were never reconciled. On day two of our visit, the receptionist called in "sick," and subsequently resigned.

Most computer systems assign each patient an encounter ticket (or Superbill) with a unique, tracking number. When staff collects consultation fees, past balances, or copayments, these amounts are "posted" to the encounter ticket, which "closes" it in the computer system. At day's end, the manager runs an "Open Ticket Report" to verify that all tickets have been "closed."

If your practice has never generated an "Open Ticket Report," now is the time. And don't be surprised if the first printing unearths open tickets that date back many months or even years. When a recent surgical client printed their initial report, it revealed 600+ open tickets from the previous two years. Was someone in the practice on the take? It's hard to say. But now that the practice has a proper protocol in place, no one goes home until all tickets are located and closed. And yes, collections at the front desk are up.

What if your system doesn't have an "Open Ticket" report? Those that offer paperless options (no printed encounter ticket) typically have verification features other than tracking numbers. These often include closing the encounter to posted charges. Contact your vendor to ensure the protocol your practice uses is in accordance with vendor guidance.

3. Institute a proper "daily close."

The "daily close" is standard operating procedure in retail stores and restaurants and should be in your practice too. Despite what some aesthetic surgeons believe, the daily close is not just for practices taking insurance. In reality, it's even more important for a practice that collects for surgery, retail products, and spa services, and often paid in cash and with credit cards.

A proper daily close protocol ensures that all money collected, mailed in, or electronically remitted matches the amounts posted into the computer system, and that the total of all checks, credit cards, and cash collected matches the respective receipts, *to the penny.* And the "daily close" protocol includes money collected at the front desk as well as money collected by the patient care coordinator(s).

Staff conducts the daily close procedure at the end of the day. A manager or supervisor verifies and signs-off on all the calculations and documentation. As the saying goes, "employees respect what management inspects." Source documents for all the day's transactions are bundled and filed in the following way:

- Fasten together all printed, closed encounter tickets. (If you are paperless, talk to your vendor about the digital equivalent of this.)
- Include surgery deposit slips/invoices with all back up/source documents (credit card receipts, check copies, daily close report).
- File the whole packet of information by date.

If you want to save paper, scan all the paper to create one PDF file. Name the file with the day's date, and put it in a folder in the hard drive, labeled by month, for easy look up. Shred the paper after making sure the practice's IT consultant has put data backup protocols in place. And again, protocols for paperless practices vary. If your office is paperless, contact your vendor for details.

4. Create a procedure for handling large cash payments.

As we recruit managers and patient care coordinators, we commonly find that if a candidate's previous surgeon gave a little

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"spiff" for encouraging patients to pay in cash, the candidate has a loose idea of what's right and what's questionable when it comes to collecting it. Add to this the fact that many aesthetic patients *prefer* to pay in cash—sometimes in startlingly large amounts. In one aesthetic practice, we witnessed a patient present a gym bag filled with $7,000+ in twenty dollar bills.

To deal with both of these realities, develop a written protocol that everyone follows when it comes to collecting cash payments greater than $500:

- Ask the staff who receives the cash to count it in front of the patient in a private office. Record and initial the amount on a separate piece of paper.
- Ask a supervisor to count, verify, and initial that the amount is correct.
- Put the cash in an envelope and seal it.
- Post the amount into the computer system as a patient payment. Generate a receipt from the computer system, showing that the money was posted.
- Prepare a separate deposit slip for each large, cash deposit.
- Take the cash to the bank and deposit it.
- Fasten together and file the deposit slip, document that was initialed to verify the amount, and computer-generated receipt in the daily close packet mentioned previously.

5. Require back up details and a second signature for refund checks.

Refunding cancelled procedures can result in large checks. *All refund checks require a physician's signature.* Each check should be presented to the surgeon with back up information, such as the patient's account information, the date of surgery, and the reason for the cancellation.

In an aesthetic practice not following this protocol, some who received refunds weren't patients at all: they were friends of the practice manager, and the manager got a cut of the take.

6. Guard against product pilferage.

Aesthetic practices spend tens of thousands of dollars on skin care products, toxins, and fillers annually. Yet the majority of those we visit don't have a solid system for managing the value, logistics, or management of inventory.

Ideally, a practice invests in the inventory module in the practice management system. Not doing so is a false sense of "savings." However, even if you don't have this module, it is possible to reconcile and manage the inventory "by hand" monthly, and it's time wisely invested. Work with your accountant to implement an inventory system. Best practices are as follows:

Ongoing

- Issue purchase orders from QuickBooks, or other financial management software used.
- Insist on surgeon review and sign-off for each purchase order. (This eliminates the possibility that staff can order ten items for the office and two for themselves.)
- Never allow staff who orders products to receive or stock them. And vice versa.
- Ask staff who receive and stock the products to verify that the shipment matches the purchase order, the packing slip, and the amount paid to the vendor.

Every Month

- Count and document the number of unsold products (known as products "on hand"). Ask your accountant whether a LIFO or FIFO method is best for your practice.
- Enter the counts into the practice management system's inventory module—or, if you use a "by hand" method, indo a spreadsheet that calculates the cost and value of the inventory on hand.
- Verify that the number of products received minus the number of products sold is equal to the number of products on the shelf. Ask the manager investigate discrepancies.

7. Periodically audit and validate no-shows and cancelled appointments.

No shows are common a nuisance and lost revenue opportunity for aesthetic surgeons. And they can become an invitation for theft.

In one surgical practice, we discovered a front desk staffer marking patients as "no shows" in the computer system, yet they were indeed seen by the physician. Interestingly, all had paid in cash. How did we catch this? An inordinate number of no-shows clued us to pull charts and figure out what the pattern was. We found visit notes in a number of charts.

Quarterly, or twice a year, ask the manager to randomly select 15–20 "no show" and "cancelled" new or established patient visits (not post-ops). Review charts or EHR notes for each and verify that they indeed were not seen on that day.

8. Separate the "change fund" from the "petty cash" fund.

There is a difference. The "change fund" is an amount in small bills that's always the same —say, $200. This is the money staff use to make change for patients who pay in cash. Every day when they balance to the penny, the amount is counted out and kept in the drawer for change-making the next day.

The "petty cash" fund is a small account from which you borrow for small purchases. Each transaction is logged on a 'chit,' and ultimately posted as an expense in your bookkeeping system. When the petty cash fund is low, the manager replenishes it, and records this in the bookkeeping system too.

If you don't track petty cash separately from change, you risk an easy-to-play "financial

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Good Audit Control Requires Separation of Cash Handling Tasks

Manager*	Skin Care/Spa Staff	Office Staff	Physician
Generates product purchase orders Orders products after physician approval Enters the product count into computer or spreadsheet—reviews data and investigates discrepancies	Sends product requests to manager Counts product on shelf monthly and provides data to manager	Receives and verifies order accuracy against documentation	Reviews and approves purchase orders Signs checks to pay for product

* Or other individual who is not involved in day-to-day spa operations or who sells products.

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Working with Industry

the relationship. At least in the US, companies must be transparent, and consulting agreements are dissected by internal compliance machines. Some physicians gripe that profitable companies are just tightening their belts and trying to save money at the expense of their physician partners. The truth is that not following the strict guidelines set by US government agencies is not only irresponsible, but also downright illegal. So when your sales rep tells you that he cannot buy your staff lunch or give you free product, believe him when he says that he is just trying to keep his job. No sales rep I have ever met wants to operate this way, but they are forced to follow the rules.

Opportunities to Work with Industry

- Clinical research trials
- Speaking engagements
- Participation in CME events
- White papers
- Journal article submissions
- Preceptorships
- Serving on an Advisory Board
- Peer-to-peer training
- Speaking at a press conference
- Presenting at a webinar or seminar
- Chairing a symposium

Great value can be gained from exchanges of information between plastic surgeons and industry. There is a big focus on how physicians can collaborate with industry to develop novel technologies and products.

There are tremendous advances to be made in the field, in particular, regenerative medicine. Patients are always going to demand new and improved methods that are faster, cheaper, safer and offer better outcomes. The physicians who develop these innovations stand to profit handsomely from their hard work and entrepreneurism.

Many companies are committed to fairly compensating physicians, clinical investigators and research institutions for the work they do to bring products to market and improve patient care. Beware that the rules of engagement are changing, and the consequences of failing to follow the precise regulations to the letter for both parties are staggering.

Resources:

- http://www.phrma.org/principles-guidelines/code-on-interactions-with-health-care-professionals
- http://advamed.org/issues/1/code-of-ethics
- http://www.cms.gov/Regulations-and-Guidance/Legislation/National-Physician-Payment-Transparency-Program/index.html

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1 http://www.fda.gov/downloads/Drugs/DevelopmentApprovalProcess/DrugInnovation/UCM381803.pdf

2 http://medtechiq.ning.com/profiles/blogs/medical-affairs-role-in-pharmaceutical-companies

3 http://oig.hhs.gov

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shell game" that never matches money spent with specific transactions. And it's difficult to spot missing money if there are no controls for reconciling transactions in the first place.

9. Lock it up.

This simple step is often overlooked—especially in small practices where the physician insists that staff is loyal and trustworthy.

Keep all money in a safe or drop safe, and establish guidelines for who has access. Best case, only the physician and manager should have the keys or the combination—lest too many cooks spoil the soup.

I recognize that surgeons and managers are busy and that financial policies and protocols can be tedious. But when it comes to handling money, there is no amount of busy that should get in the way of plugging common financial risk holes with common sense practices like these.

Karen Zupko is President of KarenZupko & Associates, Inc., a firm that has helped aesthetic practices save time, save money, and reduce risk for more than 25 years.

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