Internal Control of Cash in the Medical Office*

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Most individuals have an aversion to a discussion of internal control because the need for such a safeguard stems from an aspect of human behavior we would prefer to ignore. Yet internal control is a necessity for most organizations, large and small.

Opportunities for appropriation of funds arise in many and varied circumstances. More important, persons who do appropriate funds to their personal use are not noticeably different or unusual. As a matter of fact, cases of embezzlement always involve trusted employees. This is obvious for, if the employee were not trusted, he would not have been placed in a position where he could embezzle.

For the purposes of most physicians, internal control has two fundamental objectives. The first and most obvious is the safeguarding of assets, principally the cash asset. Before going into this in detail, however, a second objective of internal control deserves mention and brief discussion. A good system ought to promote accuracy and reliability in accounting data. This is important to physicians for at least three reasons. First, the need for reliable data at income tax time is obvious and becomes doubly significant when one considers the fact that income levels of physicians make their tax returns especially suitable for detailed examination and possible audit. Perhaps most critical is the reporting of the income; unless specifically excluded under the tax law, all receipts are considered part of gross income for tax purposes. Failure to account for and report such receipts may result in charges of income tax evasion; a good system of internal checks and balances ought to prevent such failure. Second, accuracy in recording customer billings and payments is essential for maintaining good relationships with patients. Patients are especially disturbed if they are billed for services not rendered or at rates which are inconsistent with the type of service rendered. Third, good money management requires the timely use, whether for investment or for daily business matters, of cash resources. Delays in handling and recording of such receipts reduce the cash flow and minimize the return on such resources.

Returning to the objective of internal control as a means of safeguarding cash, there are certain elements or characteristics common to good systems. They are as follows:

1. *Appropriate division of duty.* This is as fundamental to good internal control as pitching is to baseball. No employee should be allowed to do so much that it becomes relatively easy for him to embezzle funds and to conceal his embezzlement in the accounting records. In other words, the *custody* of cash and the *recording* of cash receipts and disbursements should be handled by separate persons in order that one may serve as a check upon the other. *A single employee should never be permitted to serve in the dual role of cashier and accountant.* Such division of duty does not require large numbers of employees. Consider, for a moment, theaters, where relatively good internal control exists despite the fact that only two employees, a cashier and a doorman, are involved. (Admittedly, an automatic ticket dispensing device contributes significantly to effective internal control.) Certainly, equally good internal control can be obtained in the vast majority of doctors' offices with as few employees. Remember: Distribute duties among employees so that they will check on each other.
2. *Responsibility for handling cash ought to be clearly fixed in one individual.* This helps to avoid those situations where accountability for cash shortages cannot be determined because more than one person has access to cash.

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3. The *use of prenumbered business documents* is highly desirable. Responsibility for missing documents can be assigned to the appropriate individual, thus making it much more difficult to conceal shortages through the destruction of supporting papers.
4. The *careful selection of employees* is essential to good internal control. A few minutes spent in thoroughly screening and reviewing the backgrounds of potential employees may save considerable embarrassment, as well as financial resources, at a later time.
5. Finally, serious consideration should be given to having a Certified Public Accountant *conduct an annual audit*. Such an audit offers several advantages. First, parts of the audit can be done on a surprise basis which could very well permit the detection of embezzlement. Second, where weaknesses in internal control do exist, a CPA should be able to recommend the appropriate corrective action. Third, the fact that your employees know that an annual audit is conducted provides in itself a deterrent to embezzlement. Fourth, a CPA in the course of his audit will become very familiar with the business aspects of your practice and will be in a good position to provide sound advice on tax and other business matters.

Now that some of the characteristics of good internal control have been noted, we can turn our attention to a few methods which are commonly used in perpetrating embezzlement. Incidentally, the methods cited are only illustrative and by no means all-inclusive.

1. An office assistant may perform a service, such as giving injections, fail to record the service, and appropriate for his or her own purposes any cash received in payment of the service.
2. An office aid may convince the employer that certain patients' accounts are uncollectible and that such accounts should be written off to "bad debts." If the aid has been setting aside collections from these or other patients for personal use, the write-off of the "worthless" accounts enables him or her to conceal the shortage.
3. An office assistant may prepare a check, payable to a fictitious person, give it to an unsuspecting physician for his signature, and pocket the proceeds. This usually involves the submission of equally fictitious invoices to be signed by the physician as documentary support for checks. A variation of this same method involves the overpayment of invoices for later personal kickback.
4. An office assistant may embezzle funds and conceal the shortage by delaying the recording of cash receipts. This process typically involves a) the failure to record all cash receipts, b) the abstraction by the assistant of the unrecorded receipts, and c) the crediting of subsequent receipts to the wrong account. Because certain patient accounts are not posted accurately, this method has limitations. A shrewd assistant, however, may be able to manipulate accounts for an extended period before being confronted with more complaints than he or she can handle.

There are many other ways that embezzlement can be committed. Endorsements may be forged. Misuse of petty cash may occur. Regardless of method, however, the concealment of shortages typically requires that the embezzler in some way manipulate patient accounts and/or falsify documents supporting the disbursement of cash.

The alert physician will recognize any cues or signals that may cause one to suspect the possibility of embezzlement by an office aid. One such signal is the spending pattern of employees. Does their standard of living seem excessive in view of their supposed level of income? One case with which the writer is familiar involved the major officer of a small credit union. One factor that contributed to the detection of his defalcation was an observant director of the credit union who noted that the embezzler lived exceedingly well, given his income. This is not, of course, a foolproof test; there is the little old lady who embezzled hundreds of thousands of dollars but who lived very frugally and gave rather liberally to charity. She was a modern-day Robin Hood. Nonetheless, spending patterns of employees may suggest the possibility of embezzlement.

Frequent complaints by patients about billing errors may also point to something amiss. As noted previously, manipulation of patient accounts is a common method of concealing shortages. If patients are calling often concerning their bills, further inquiry is desirable.

Excessive commitment to the job may again signal the existence of problems. Do employees avoid taking vacations or do they find it necessary to work inordinate amounts of overtime, either in the office or by taking records home? The aforementioned little old lady had not taken a vacation in years, and her embezzlement was discovered only when she became ill and others performed her work in her absence. Where such unusual devotion to the job exists, investigation may be justified.

Finally, frequent borrowing by employees, especially from office cash, may suggest financial stress. In any event, it is not a practice to be encouraged.

It is hoped that by now certain desirable internal control procedures are readily apparent. The following list may serve to summarize those safeguarding devices which physicians should consider.

1. Separate functional responsibility. Do not let one person be both accountant and cashier. Have your CPA reconcile your bank accounts. Where adequate checks and balances are provided through internal control, embezzlement becomes very difficult in the absence of collusion.
2. Use prenumbered forms and then account for them. This provides both a chronological and permanent file of transactions.
3. Have an annual audit by your CPA. The benefits to be derived have already been noted.
4. If possible, rotate employees to various positions at unannounced intervals. The deterrent factor here is obvious.
5. Deposit cash daily. Cash is too tempting to be left in the office very long.
6. Do not write off patient receivables to bad debts without your careful consideration and approval.
7. Bond your employees. Insurance coverage of this kind is the ultimate protection and $10,000 coverage ought to be sufficient in the vast majority of cases.
8. Review supporting documents to determine that disbursements are legitimate and represent payments for value received before signing that check (or reimbursing petty cash). In some way cancel supporting documents so that they cannot be submitted a second time for payment.
9. Maintain physical control over accounting records during non-business hours.
10. Screen prospective employees carefully.
11. Require that employees take vacations and that they work usual hours.
12. Be observant. Be alert to danger signals that suggest wrongdoing by an office aid.
13. Test the effectiveness of your accounting system. For example, periodically review the deposit slip and compare its total with that of the daysheet or occasionally check a few patients' statements to determine their consistency with services rendered or accuracy of charges and/or payments. This will require but a few minutes and could be time well spent.

From the foregoing, it is evident that the implementation of internal control procedures does not require much more than the exercise of prudent behavior and a little common sense. Such exercise may save considerable grief, both emotional and financial, at a later time.