



VETERINARY BUSINESS ADVISORS, INC.  
*Counsel for the Veterinary Profession*

### **Fraud/Theft in Veterinary Practices: Are YOU Vulnerable?**

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Susan ran a busy practice and she worked hard throughout the week. Yet, it never seemed as though her financial statements showed the profits she expected to earn. She experimented with different fee structures, carefully examined each expense and began buying supplies in bulk to save money – but, no luck. Her bank account balance still looked lukewarm at best. Finally, through a fluke, Susan discovered that her assistant, a woman whom she had trusted wholeheartedly, had been stealing from the business.

*Fraud. Theft. Embezzlement.*

Each and every business potentially faces these threats – and, in service-based firms such as veterinary practices where there is no physical product being sold, these crimes can be even more difficult to uncover.

#### **How You'll Benefit From This Article**

- You'll understand the distinctions among fraud, embezzlement and theft.
- You'll discover common reasons that people commit these crimes, and gain knowledge about how to identify areas in which your practice may be vulnerable – and the types of employees who typically commit fraud in veterinary practices.
- You'll know what steps to take if you uncover instances of theft.
- You'll receive a useful checklist of best practices to implement for controlling risk and preventing fraud.

#### **Definitions**

***Fraud:*** A false representation of a matter of fact—whether by words or by conduct, by false or misleading allegations, or by concealment of what should have been disclosed—that deceives and is intended to deceive another so that the individual will act upon it to her or his legal injury.

***Embezzlement:*** The fraudulent conversion of another's property by a person who is in a position of trust, such as an agent or employee. Embezzlement is distinguished from swindling in that swindling involves wrongfully obtaining property by a false pretense, such as a lie or trick, at the time the property is transferred, which induces the victim to transfer to the wrongdoer title to the property.

**Theft:** A criminal act in which property belonging to another is taken without that person's consent. The term theft is sometimes used synonymously with larceny. Theft, however, is actually a broader term, encompassing many forms of deceitful taking of property, including swindling, embezzlement, and false pretenses. Some states categorize all these offenses under a single statutory crime of theft.

Defining these crimes, though, is only part of the equation. The bigger question is, "Why? Why would someone commit these fraudulent acts?"

## **Fraud Pyramid**

These reasons can be broken down into the "Fraud Pyramid." When the three circumstances that make up this pyramid are affecting an employee, your practice may be at risk.

**Pressure.** Employees may face financial burdens, such as excessive debt, addictions, an unemployed spouse, or an unexpected pregnancy. Perhaps they simply don't know how to balance their family budget! No matter what the specific reason, these pressures are often viewed as a source of shame, so it can be quite difficult for that employee to share them with family or coworkers.

**Perceived opportunity.** Desperate individuals seek out or gravitate to places with weak internal financial controls. They recognize the vulnerability that exists with a weak system of checks and balances. Employees that seek to steal often view increased responsibility within the practice as an opportunity because they gain more access to the inner financial workings.

**Rationalization.** A person considering fraud can often succeed even in a well-managed organization. Conversely, a person with strong moral values will most likely not commit fraud, even when faced with pressure and opportunity. Fraudsters justify their actions internally, feeling that a small loss for the practice is acceptable if it enables the individual to attain a greater financial standing. They may see no other option for dealing with their own monetary problems., so they rationalize theft by convincing themselves that they are being mistreated by the employer, and that the stolen items or money are due to them for their contributions to the practice. Finally, many thieves believe they are simply "borrowing" from the practice, and they have a sincere intention of repaying the business after attaining a more stable financial state.

## **How Fraud is Committed**

The most common and obvious of these is free or deeply discounted treatment for the animals of friends. More difficult to deal with is the theft of cash and personal effects of other employees. Thieves also beat poor financial controls with a number of billing schemes. Fraudsters will cheat the system by not recording sales and destroying or omitting sales slips. They may also tamper with cash register tapes and, by effect, understate cash sales reports. Another tactic is to overcharge customers and pocket the difference. Finally, a thief will collect controversial charges, but report these as uncollectible, allowing them to become write-offs after taking the money.

Still other forms of fraud include:

- Theft of controlled substances
- Redeeming vendor rewards for personal gain by employees with access to those accounts
- Inappropriate payment of personal invoices, often via petty cash
- Unauthorized borrowing

Finally, employees steal time from their employers by conducting personal business or leaving the office while on the clock.

### **Who is most likely to commit fraud in a veterinary practice?**

Here is a profile compiled by Marsha Heinke<sup>i</sup>:

- 69.3% have been with their employer less than 3 years
- 38.7% live on an income between \$20 – \$35,000 per year
- 33% are receptionists
- 12.1% are tech assistants
- 10.3% are veterinary techs

### **When Theft Occurs**

If theft is discovered within your practice, remember that any allegation of embezzlement needs to be supported by clear and cogent evidence of the theft<sup>ii</sup>. To obtain this evidence, an investigation needs to be conducted. One should gather as much evidence as possible, while keeping the circle of trust extremely limited. It is important to remember that employees who commit theft against your practice most likely have a good deal of access, and this should be considered when choosing whom to include in this circle of trust.

While conducting the investigation, you must maintain the integrity of both the individuals involved and the investigation itself. This is for the protection of your practice as a whole. Finally, secure as much information as possible before it is gone. Fraudsters will start to cover their tracks once they believe that their situation is compromised.

### **Preventing Fraud**

The best way to deal with any crime, of course, is to prevent it before it happens. There are a number of ways to control risk when seeking to prevent fraud within your veterinary practice<sup>iii</sup>:

***Conduct background checks.*** Always conduct one when hiring a new employee and watch for red flags. FYI: 43% of thieves tend to live beyond their means and 36% experience financial difficulties.

**Regularly examine internal controls.** Successful embezzlement can happen when your books are not double checked. By requiring employees to verify work with each other, you will make theft much more difficult. More specifically, implement these best practices:

- 1) Segregate duties among team members to set up a system of checks and balances. Examples of places where this can be put into action are inventory counts and the depositing of checks.
- 2) Limit check signing to the practice owner. All checks that require a signature should have a supporting invoice with an amount that can be matched to the check amount.
- 3) Reconcile all bank accounts monthly. Thieves can easily bury withdrawals when statements are not matched to transactions regularly.
- 4) Review all payroll reports before submission to ensure that salary, time clock reports, and check payments are all accurate. Many amounts within payroll reports will remain constant. Learn to recognize these numbers and know that any discrepancies indicate a potential problem.
- 5) Reconcile inventory reconciliation. Inventory shrink most often occurs with high turnover items and these items become easy targets if frequent inventory checks are not conducted.
- 6) Limit access to company credit. Set reasonable limits and only extend credit where it is necessary to ensure the growth and wellbeing of the practice.

These controls all require effort, but will pay great dividends in the future. Once they are implemented, you can safeguard your practice against theft for years to come.

## **Final Advice**

Sometimes, even with your best efforts, fraud happens. That's why businesses carry fidelity coverage. This is a method of protecting yourself if an employee finds a way around your internal controls and engages in embezzlement – so, if you don't have this type of insurance, talk to your agent today.

Plus, it's important to encourage your team members to be your eyes and ears, and to come to you if they see something suspicious. To facilitate that, the atmosphere within your practice must feel safe and promote loyalty – and you must let employees know that whistleblowers (who take great risks!) will be protected for doing the right thing.

By protecting yourself against fraud, theft and embezzlement, you increase profit margins. More importantly, you maintain focus on the true reason that you practice veterinary medicine: the health and care of your patients.

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<sup>i</sup> <http://www.impromed.com/newsletter/article.aspx?a=239>

<sup>ii</sup> <http://www.veterinarypracticefraud.com/2011-02-16%20Fraud%20Survey%20E-Book.pdf>