Many psychologists enter the profession to help people in need. Discussions among colleagues about treatment approaches for various disorders can be lively and interesting. When the conversation turns to the business of running the practice and financial matters, however, eyes may glaze over. Though not as engaging as clinical matters, financial management issues nonetheless are key to ensuring practice solvency.

This article explores two critical issues for financial success: protecting cash flow and preventing internal fraud or theft.

**Ensuring cash flow**

Money is a sensitive topic that makes many people uncomfortable. As emphasized by the field of financial psychology, thoughts, feelings and values affect the way people handle money and make financial decisions.

Unless you are volunteering or offering pro bono services, clients and patients (or their parents or guardians) are responsible for paying you for the services you provide. Too often, unfortunately, practitioners find themselves owed thousands of dollars that they might never collect.

As difficult as it may be for some practitioners, talking with your clients and providing clear information about financial policies and procedures is vital for the financial health of your practice. If you have a new client information packet, for example, it should include your policies and procedures related to financial matters such as scheduling and cancelling appointments, no-shows and the forms of payment you accept, including your participation in any third-party insurance.

Openly discuss with patients your billing procedures and the collection process you may use in the case of late and missed payments. According to Standard 6.04(e) of The Ethical Principles of Psychologists and Code of Conduct, this discussion should be held as early as possible in the professional relationship. Ideally, these financial topics should be addressed during the initial informed consent process, and not after payments have started trickling in late.

The APAPO HIPAA for Psychologists product (available online at [www.apa.org/education/ce/1370022.aspx](http://www.apa.org/education/ce/1370022.aspx)) and the Trust ([www.trustinsurance.com/applications/inf.doc.pdf](http://www.trustinsurance.com/applications/inf.doc.pdf)), have language about billing and payment in informed consent templates known as the psychotherapist-patient agreement; their language covers the first five items in the list below. Review your own forms to see if they include the following items:

- Your fee for the services you are or will be providing
- Who is responsible for payment
- When payment is due
- Who is responsible for submitting for insurance reimbursement
- The process for collecting unpaid balances, including but not limited to contacting collection agencies and attorneys
- The process for dealing with bad checks or declined credit cards, including fees charged (check your state laws regarding limits to fees); and
- Circumstances that may lead to patient transfer/termination of care

APA Ethics Code Standard 3.12, Interruption of Psychological Services, states, “Unless otherwise covered by contract, psychologists make reasonable efforts to plan for facilitating services in the event that psychological services are interrupted by factors such as the psychologist’s illness, death, unavailability, relocation or retirement or by the client’s/patient’s relocation or financial limitations” (bold emphasis added).

Psychologists can often anticipate financial limitations – for example, by learning that a patient is about to lose his or her job – and may be able to identity a temporary payment plan to which both the patient and psychologist can agree. Examples might include using a sliding fee scale until the patient’s financial situation improves or arranging for a monthly repayment plan.

When a patient refuses to pay after your attempts to secure payment, you may decide to discontinue your services. If
you get to this point, keep in mind the limitations stated in the APA Ethics Code; Standard 10.10 specifically addresses situations where therapy is terminated. Psychologists should take care to protect the client’s or patient’s welfare by making appropriate referrals to other sources of care. Practitioners should also be mindful of relevant state laws and regulations and comply with laws regarding termination of care. See the article, Transitions and Terminations: Legal and Ethical Issues When Discontinuing Treatment, from the Spring/Summer 2014 issue of Good Practice for additional information.

Psychologists often worry if taking a patient to collections or court over unpaid bills might result in a licensing board complaint. Indeed, the risk of a complaint can be elevated if you initiate action to collect past due bills. When a patient has not paid you after several attempts to collect, you need to weigh the potential benefits of pursing collection against the likelihood of action by the patient. Your insurance malpractice carrier and/or an attorney can help you decide whether to pursue collection. Having a discussion with your patient about financial issues at the beginning of the therapeutic relationship should help reduce surprises and hard feelings by the patient if you find it advisable to take collection action.

**Theft and fraud prevention**

Theft and fraud is big business. Unfortunately, employees contribute to part of that business. According to the Association of Certified Fraud Examiners (ACFE), 5 percent of all revenues are lost annually as a result of internal fraud. The association’s 2014 “Report to the Nations on Occupational Fraud and Abuse” listed statistics about fraud around the globe:

- The median duration of theft before discovery was 18 months.
- The median loss to employers was $145,000.
- 87 percent of offenders had no criminal record.
- 92 percent of the cases included at least one behavioral red flag.
- Having internal controls in place reduced the incidence of fraud.

In its report, ACFE also revealed that most employees who commit fraud demonstrate several red flags. Not every person who demonstrates the following characteristics is worthy of suspicion. But you should be aware of changes in behavior, or a combination of these factors, especially if you have noticed a change in your financial picture:

- Living beyond means/financial difficulties
- Unusually close relationship with vendor or customer
- Control issues — for example, unwillingness to share job duties and refusal to take vacations

**PUTTING A GOOD ACCOUNTANT TO WORK FOR YOU**

A good accountant can be a trusted business advisor. To help build that trust, be open and honest with your accountant and make sure he or she is intimately familiar with the business operations of your practice. Knowing your professional and financial goals will allow your accountant to offer concrete suggestions for how to achieve these goals.

Your accountant contributes to your practice success by helping you create a solid business plan, take full advantage of your practice’s strengths, use your resources more effectively, and manage revenues and expenses in a way that improves your bottom line. He or she also can help you analyze your business operations, identify problems and suggest possible solutions. And if you are thinking about selling your practice, doing estate planning or applying for a business loan, your accountant can assist you in determining the value of your practice.

- Divorce/family problems/instability in life circumstances
- Irritability, suspiciousness or defensiveness
- Addiction problems
- Complaints of inadequate pay
- Past employment-related or legal problems

If you are in the position to make hiring decisions or provide input to the hiring process, here are some steps you can take to reduce risk to the practice.

1. **Make smart hiring decisions.** Though it may seem obvious, careful screening of prospective employees can help avoid surprises. Do your homework and verify information provided by applicants. According to a 2014 survey conducted by Career Builder, 58 percent of hiring managers said they have caught a lie on a resume.

Common lies include embellished skill set, overstated job responsibilities, and un factual dates of employment, job title, academic degree and employment history.

Take time to check references. Call former employers to verify dates of employment, job title and responsibilities. Confirm any listed academic credentials or awards. The few minutes you take to verify this information could save you a lot of work and money in the long run.

Be careful to check federal laws as well as laws in your jurisdiction about conducting a credit or criminal background check. Even if the employee is being hired
to handle finances, employers must follow rules before engaging in this process. The Federal Trade Commission and the Equal Employment Opportunity Commission created a joint publication to help employers through the process, which is available online at 1.usa.gov/1yj7H2l.

Laws regarding the use of credit reports in employment settings vary by state. Several states prohibit or restrict the use of credit reports in hiring decisions. States that do allow this practice have requirements, such as prior written consent and adverse notice provisions. If you plan to use credit history and/or criminal background checks in your hiring process, check with an employment attorney in your state for advice.

2. Set up internal controls. If you work in or run a small practice, it can be difficult to allocate responsibility over finances among several employees. Leaving one employee in charge of all financial matters makes it easier for that person to misappropriate funds. Here are some tactics you can use to make sure that money is not being embezzled or misappropriated:

- You should not allow the same person to collect and deposit money. Ideally, one person collects the money, another person records it and a third person deposits it.
- Conduct random audits of your accounting software. Ask the bookkeeper to send you several different months of records and compare them to the bank statements.
- Hire an outside firm to run payroll.
- Hire an outside firm or have your accountant/financial consultant conduct an annual review of your books.
- Avoid delegating check-writing authority. If you have to do this, do not authorize payment of bills over a certain amount without your prior approval.
- Know all passwords to accounts so that you can spot check.

3. Regularly review financial statements. Stay on top of the flow of income and expenses from month to month, and compare to prior years. Frequent review will alert you to abnormalities in cash flow.

4. Be aware of changes in employee behavior, such as the red flags mentioned earlier. Trust your instincts and do more investigation if an employee is exhibiting suspicious behavior.

By maintaining a hands-on approach to your finances, you are more likely to avoid situations of nonpayment for services and employee theft. But if you find yourself in a situation that requires action, consult with your certified public accountant (CPA; see sidebar on page 17 about using an accountant) or other financial consultant and/or a knowledgeable licensed attorney in your state.

Please note: Legal and financial issues are complex and highly fact-specific and require expertise that cannot be provided by any single article. In addition, laws change over time and vary by jurisdiction. The information in this article does not constitute legal or financial advice and should not be used as a substitute for obtaining personal legal or financial advice and consultation prior to making decisions regarding individual circumstances.