CASE STUDY: PROGRESSIVE STEP REHABILITATION SERVICES

Progressive Step Rehabilitation Services (PSRS), in Jacksonville, Fla., allowed an opportunity for fraud to be committed. The tone of the management philosophy and its operating style did not enforce an effective control environment. Rather, management believed in the employees and trusted them accordingly. This attitude, combined with a single employee's delegated responsibility of handling all checks and cash that came in through the mail and the reception desk, left the company at risk.

Although PSRS had security policies established, management and the employees ignored several important ones. When asked for a copy of company policy, it was unavailable. When reperforming the totals as part of a forensic investigation, bank deposits were often missing signatures, and at times the signatures approved miscalculated totals or incomplete deposit slips. These results suggest that some policies were merely perfunctory and clearly not enforced.

A single employee had the opportunity to set checks aside because she was the only one who picked up the mail. She never relinquished the mailbox key, even when repeatedly instructed to do so. Days after giving birth, the employee was back at the office, picking up the mail and the insurance copayments from the physical therapists' offices. Even when she worked only part-time, she always held on to these two tasks. Management did not segregate these duties, and there were no safeguards in place to monitor her activities.

The method of defalcation was a traditional lapping scheme. Checks were set aside by the employee after the mail was opened at the office and were used later to substitute for cash on the bank deposit slip. The bank deposit was altered to include the checks set aside for the same amount as the cash collected. The copy of the deposit slip at the office was not the same as the one used at the bank. The manager would check to see if the totals deposited and the amount on the bank deposit slip matched, but no closer inspection occurred. A single employee had control of the money entering the billing office from beginning to end. It was later determined that the employee had a history of writing bad checks and had committed a similar lapping scheme in another physical therapy practice approximately 10 years earlier.

When asked by the authors about their CPA's role in the business, management noted that the CPA was involved in compiling the monthly financial statements and annual tax returns. When asked if the CPA had been involved in choosing and setting up the accounting and billing system, management responded that the CPA was concerned only that the system would produce the records electronically in order to streamline the process of the month-end reporting. When the authors asked if the CPA was involved in determining the appropriateness of the system selection or evaluating the internal control system of this practice with annual billings of more than $800,000, management responded, "No, but we never asked our CPA to do this." In response, the authors suggested that if one of them entered their practice complaining of a sore hand, but also was unable to walk, he would hope that he would questioned about the reason for the limp.

When management later learned that PSRS's insurance coverage was inadequate to cover the loss, they further stated that they had never discussed insurance coverage with their CPA, either. There is, of course, no guarantee that the CPA, if applying the principles in COSO's ICFR, could have prevented the over $60,000 fraud, but the authors hope that it would have reduced the amount. Moreover, the CPA's involvement in the business should have represented an important mitigating control whose benefits outweighed the cost.