

# Face Embezzlement Head On

by Sandy Pardue, Classic Practice Resources

Embezzlement is a sad reality and a crime of opportunity. If you are a practice owner, you need to know how to protect your practice. Don't think that embezzlement can never happen to you or that you have your business under control. The fact is that it *can* happen to you. Chances are if you suspect it your suspicions are correct. Some of you, after reading this article, might discover that you too are a victim right now in your own practice. According to an American Dental Association Community Brief in November 2005, "Surveys reveal that 35 percent of dental offices have been embezzled once, and 17 percent have been victims more than once." These are the practices that we know about. There are many instances where the embezzlement is never found or reported.

The most recent nationally publicized case we learned about involved a dental office employee accused of embezzling \$1.6 million from the dental office where she worked. According to the article that ran in the *North County Times*, San Diego County, "She squandered most of the money she stole on luxuries, trips and gambling." The accused wrote more than 1,000 checks from the dentist's account to herself and credit card companies over a period of seven years. She was also falsifying prescriptions and was accused of going to a number of pharmacies trying to obtain narcotics.

Some of you might be wondering where the dentist was while this was going on. I can only imagine that he was spending his days in a treatment room, pumping out dentistry, while his office manager stole all she could. He didn't suspect anything and it wasn't until he was trying to get personal loans to cover business expenses that the theft was discovered.

The reason why dental practices are at high risk for embezzlement is because the dentist is the central figure generating the revenue stream. The dentist is the main producer, and wears a lot of different hats in the dental office. In order to move the

practice forward, the main producer should be working in the treatment room producing dentistry. Dentists have to depend on employees to keep the schedule full, keep the patients happy, collect the money, file the insurance and get the money to the bank. Most dentists have no formal hiring protocols, which sets them up for embezzlement.

Dentists must have high ethical standards themselves. There should be an office policy making it clear that the practice will

never do anything illegal. Patients might ask you to cheat on insurance regarding dates, etc.; the answer must always be, "No, we don't do anything illegal."

I met with a dentist who once agreed to change a date for a couple of patients and the front desk scheduler is now blackmailing him. She is stealing from the office and threatening to report him to the state board. She has family members coming in for treatment and she is filing their treatment under other patient's insurance. My advice to him was to contact the insurance companies to tell them what he did, and then terminate the employee.

I hear about embezzlement in the dental practice almost every week from practice owners who call my office for advice on how to investigate fraud in their practice. A lot of embezzlement is uncovered during consults. It is not unusual to hear about this occurring two

and three times in the same practice. After investigating, we often learn that the employee has put in an in-ground pool, bought a Mercedes Benz and is taking weekend trips to Las Vegas while working a \$20-an-hour job. But not all embezzlers are as obvious with their extravagant spending. Oftentimes other employees are reporting to the dentist that they suspect something and the reports are ignored. It is usually a key employee and the doctor believes the office could not function without that person. We recommend that every practice implement a confidential "tip line," which allows staff to report suggestions and observations.

## Warning Signs

- Making large purchases
- Gambling or other dependencies
- Excessive partying
- Lavish lifestyle
- Receives telephone calls from creditors
- Patient complaints about their account
- Having wages garnished
- Living beyond their means
- Asking for cash advances
- Personal problems such as divorce or addiction
- Resist change
- Refuses to work with a consultant
- Not wanting to take earned time off
- Not allowing others in their work area
- Employee quits unexpectedly
- Not willing to teach others the computer software
- Not following internal financial protocols
- Holding deposits
- Eager to go to the bank
- Not closing out the month on the practice software
- Eager to get the mail
- Wanting to work when the office is closed

### If You Answer “No,” You Need to Make Immediate Changes

- Are the checks stamped “For Deposit Only” as they are opened or received?
- Are you signing off on the Day Sheet each day?
- Are you reviewing and signing the daily deposit each day?
- Are you verifying adjustments made to patient accounts?
- Do you have strong internal systems?
- Do you use a numbered receipt book for all cash and check payments?
- Do you sign all of the checks, verifying the request for payment with an attached invoice?
- Do you audit petty cash?
- Do you insist that your bookkeeper take at least five consecutive days off?
- Do you have a “Drug Free Workplace” policy in place and do drug testing?
- Do you perform credit checks and background checks on prospective employees?

### If You Answer “Yes,” You Need to Make Immediate Changes

- Do you have a signature stamp in the practice?
- Does the person who opens the mail also enter the charges and payments?
- Does the person who enters the charges and prepares the deposit, also go to the bank?
- Does the same person handle accounts receivable and accounts payable?
- Are credit card statements mailed to the office instead of your home?
- Are bank statements mailed to the office instead of your home?

### Common Embezzlement and Fraud Techniques

- **Stealing insurance checks, cash and check payments:** They do not fully utilize the computer software and forge the checks. Checks are deposited in their personal bank accounts. They may or may not enter the payment as received in the office computer software. Many times they will put a hold on the statement so the patient never questions the missing payment.
- **Borrowing from petty cash:** Most practices do not use a lock box for petty cash and employees have access to it. Few practices have monitors, audits and petty cash accountability in place.
- **Crediting their personal credit cards with doctor’s credit terminal:** This is one of the more recent methods being used. The staff member credits their personal credit card after a patient has made a payment. Unless the doctor checks the monthly merchant statement, this goes unnoticed.
- **Altering or omitting entries on patient accounts:** They get away with this in practices that never print the audit reports or spot check patient charges. This is a common technique among embezzlers.
- **Using office or doctor credit cards and/or checkbook for personal use:** No one checks the statement and the embezzler knows it. They might have accounts the same places as doctor, he signs checks that are actually payments on the employee’s charge accounts.
- **Stealing dental supplies:** With no one watching the practice overhead and no purchase order system in place, they

### Embezzlement Investigation Checklist – Gather the following from the previous month:

#### • Daily Schedules

Spot check various patients’ accounts to confirm that treatment and payments were posted on the date of service.

#### • End of Day Reports

Verify that the computer generated End of the Day Reports, such as Day Sheets and Deposit Slips are being printed. Doctor must receive, verify for accuracy and sign them. These are kept in the practice for three years (per the IRS Publication 583).

#### • Adjustment Report

Look over the adjustments and verify the information by performing random checks of patient ledgers. Each adjustment should have a note with an explanation. Look for unexplained adjustments.

#### • Physical Deposit Books with Bank Deposit Receipts

The deposit slip should be completely filled out every day with each patient name and check amount listed separately, including insurance checks. Look for the use of liquid paper and other alterations. Also, beware if cash is never listed on the deposit slip.

#### • Bank Statement

Verify that check endorsements match the payee and that your signature is official on each check. Look for duplicate payments to vendors and payments to companies you do not recognize.

#### • Credit Card Statements

Look for charges that are not recognizable and verify that charges are, in fact, your legitimate purchases. Make sure the account you are paying on is your account and not a duplicate account opened by an employee.

#### • Merchant Statements for Credit Cards

Research transactions and make sure that you do not have unexplained credits or void/refunds made to your account. These are few and far between in a dental office.

#### • Reports Showing Outstanding Insurance

Print your Aged Insurance Report and look for outstanding insurance claims. Claims older than 90 days should be researched. Claims older than six months are a big concern.

feel comfortable stealing supplies, which causes unexplained inventory shortages.

- Payroll fraud: Adding fictitious names to the payroll.
- Time clock fraud: Clocking in on weekends, unauthorized overtime, clocking in for co-workers, etc.
- Suppliers/Vendors: They create fake companies. Doctor signs checks for what he thinks are for dental supplies.
- Lapping accounts: Stealing cash from money coming in and continuing to steal cash as payments are made to cover up the initial theft.
- Forged signatures including use of signature stamps.
- Stealing patients' personal Information: They steal a patient's identity and open up charge accounts in the patient's name. They let their friends and family use the patient's insurance benefits.
- Bartering dental work for personal gains, unbeknownst to the doctor.
- Calling in prescriptions for themselves and for friends.
- Ordering drugs under the practice name for resale on the street: We know one case that went over \$50,000.

It seems that the new economic conditions are bringing about even more instances of embezzlement. Dental offices are considered a high-risk group. Embezzlement doesn't only happen to Fortune 500 companies and your peers. I believe many more practices are being embezzled from now than ever before.

Oftentimes dentists, like other small business owners, are embarrassed to report the situation to the police when they catch or suspect an employee of stealing. They are concerned about the arrest being on the 10 p.m. news or in the local

newspaper. This type of viewpoint allows the employee to work for another dentist down the street and, in turn, ruin his financial future as well. If this happens in your practice, you should build a case, keep your findings confidential and call the authorities.

The solution to embezzlement prevention is to implement strong internal systems, do regular safeguard checks, improve hiring protocols, insist on high ethical standards, establish internal controls and learn how to detect the warning signs early on. Every person working with patient accounts or payments must be held accountable. Whether you are in dental school or preparing for retirement, practice security is a topic that must be faced head on. With established internal controls, you can practice with confidence and meet your financial goals. ■

### Author's Bio

**Sandy Pardue** is an internationally recognized lecturer, author and practice management consultant. She has assisted hundreds of doctors with practice expansion and staff development over the past 20 years. She is known for her comprehensive and interesting approach to dental office systems, and offers a refreshing point of view on how to become more efficient and productive in a dental practice. Sandy is director of consulting with Classic Practice Resources. She is also a consultant to leading dental companies for product evaluation and design. For more information, please e-mail [sandy@classicpractice.com](mailto:sandy@classicpractice.com).



#### • Receipt Book

Use a physical, triplicate carbon copy booklet with numbers. Audit receipts verifying that there are none missing and do random account checks for cash payments. This is also a tool for check-and-balance with your cash listed on deposit slips.

#### • Collection to Production Percentages

This is an indicator of money coming into the practice. This figure should be 98 percent of production. If you see this percentage going down, it could be an indication that money is leaving your practice via embezzlement or negligence.

#### • Aged Accounts Receivable

Print your aged accounts receivable report and look for outstanding monies and outstanding balances. Accounts with an outstanding balance over 90 days should be researched.

#### • Audit Trail

Investigate all account transaction entries that have been changed or deleted.

#### • Month-end Reports

After closing out the month, print the following reports and verify accuracy:

- Practice Analysis
- Insurance Aging
- Provider Production
- Audit Trail/Adjustment
- Insurance Claims Not Sent
- Accounts Receivable Aging

#### • Petty Cash

Audit petty cash receipts and make sure that it balances. Keep petty cash locked away and have a policy on how it should be handled.

#### • Statements

Generate a report showing if any patient statements have been put on hold. This needs to be researched.

If you have questions regarding your dental software reports, directly contact your practice management software support.

*read Townies' comments on the recent San Diego embezzlement case on page 80*