Embezzlement Protection Guide

SOME STATISTICS:

- It's estimated that 50% of dentists will be embezzled at least once during their career.
- Embezzlements commonly exceed $100,000

Establishing checks and balances in your practice to safeguard cash is essential. Not only is it a loss of income, it can also lead to charges against the practice owner! Doctors have been convicted of insurance fraud even when they didn't know it was occurring in their office.

This guide is intended to educate you on methods that will reduce the probability of embezzlement in your practice. By following the advice given in this guide, you can significantly reduce the likelihood of loss from embezzlement or from being convicted for insurance fraud.

Experts have identified three variables that are present when fraud occurs. These three variables make up the fraud triangle. They include:

1. Pressure: The perpetrator feels a need for more money.
2. Rationalization: The perpetrator feels justified in taking from the practice, and may even have the intention to pay back the stolen funds.
3. Opportunity: The perpetrator perceives there is an opportunity to steal without being caught.

The bad news is that within a dental practice, we commonly find these three variables present. Office personnel may not be financially prudent with their personal spending and consequently feel financial strains in their life. They might feel underpaid for their contributions to the practice and therefore easily rationalize the taking of a "few dollars." Lastly, and most unfortunately, is that the opportunity for theft is pervasive in dental practices.

The good news is that you only have to stop one of these variables and you dramatically reduce the risk of fraud. The variable most in your control is "opportunity." You should establish checks and balances, known as internal controls, which reduce the opportunity for theft. We'll discuss these in this guide. But first, it's important you understand the profile of an embezzler.

PROFILE OF AN EMBEZZLER

Most incidents of embezzlements are perpetrated by an employee with the following characteristics:

1. Shows a lot of commitment to the practice
2. Has been there more than a couple of years
3. Trusted, almost as family
4. Entrusted with a lot of access to financial responsibilities
5. Knows the practice management software very well
6. Doesn't want anyone else doing his or her responsibilities
7. May appear to be living a lifestyle that isn't likely to be sustained by his or her income
8. Workaholic
9. Resists training others/taking vacations
10. Resists third-party services like CEDR, CPAs and consultants
11. At least 67% of those who embezzle are repeaters
12. Over 70% of offenders do not have previous criminal records

SYMPTOMS OF EMBEZZLEMENT

The following are common indicators (red flags) that embezzlement is occurring:

1. Accounts Receivables balances are increasing to higher than expected levels, even though production hasn't shown a commensurate change
2. Practice appears healthy when measured by patient traffic, but the bank account doesn't reflect it
3. Unexpected increase in patient refunds
4. Unusual amount of write-offs
5. Declining practice gross income
6. Unexplained increase in practice expenses
7. Increase in patient complaints about their account
8. Employee is frequently working during off hours
9. Deteriorating financial condition of the employee (spouse & employee)
10. Deteriorating financial condition of company and/or unusually lower profitability than expected. CPA firm encountering difficulty obtaining accounting records and/or defensiveness by company's employee
11. Employee does not like to take scheduled vacations or takes only a day or two off at a time.
12. Employee constantly works overtime, takes work home, and is seldom absent
13. Employee shows emotional stress about family or personal financial problems
14. Employee openly resents owner's income, lifestyle, size of fees charged, etc. The Employee feels they are entitled to more
15. Employee has abrupt changes in personal spending (new car, house, boat, jewelry, etc.)
16. Employee carries large amounts of cash—loans money to others
17. Chronic borrowing of money by employee to disguise the theft
18. Employee wants domain and control of their workstation and openly resents any overseeing of her work and/or implementation of new financial accounting controls

19. Chronic systems issues resulting in lost data and sloppy record keeping
20. Resistance or refusal to implement new systems and procedures

CAUSES OF EMBEZZLEMENT

1. Unconditional trust of the employee by the Dentist
2. Dentist does not keep abreast of the business aspects of his practice due to always trusting everyone
3. Professional hires new employees without checking references or using background research companies
4. The Dentist sets a bad example by taking money from petty cash or daily patient cash receipts. All cash should be deposited.
5. Is there "segregation of duties"? i.e. Does the same employee receive and sort the mail, posts day sheets (through the computer), also make deposits and posts Patient adjustments?
6. Does the Employee feel underpaid and is resentful?
7. Does the Employee lives beyond his/her means?
8. Does the Employee have poor self-esteem?
9. Employee witnesses weak internal accounting controls of practice
10. Employee thinks that the professional makes too much money
11. The Dentist is often away from the office—employee handles the phone, the mail, and the patients cash, checks and credit cards
12. The Dentist is misled by the employee who is overly dedicated, trustworthy, takes no vacation, etc.

METHODS OF EMBEZZLEMENT

There are multiple techniques used to embezzle. The most common ones are:

1. Skimming: Cash received from a patient is "Skimmed" off the top and simply pocketed by the perpetrator. Generally, cash receipts are not recorded in the practice management software.
2. Lapping: The perpetrator steals cash and subsequently takes the cash from a future patient and applies it toward the first patient's account. This requires the embezzler to maintain detailed records to keep track of the "lapping." Eventually the perpetrator will either have to delete a patient's treatment history or will be caught.
3. Insurance Fraud (some frauds may benefit the perpetrator, and some may simply be to increase practice collections, which may subsequently lead to a bonus):
   a. Billing for insurance not provided;
   b. Billing for a higher level of services than were actually performed. This is often called "up-coding;"

    c. Billing for non-covered services disguised as covered services;

    d. Routinely waiving a patient's copay or deductible; or

    e. Altering claim forms and dental records.

4. Personal Purchases: The perpetrator uses a business check or credit card to make personal purchases.

5. Personal Credit Card: The perpetrator uses the business checking account to pay off a personal credit card.

6. Payroll Fraud: The perpetrator may establish a fictitious employee and have the funds deposited into a new bank account set up for the perpetrators use. He or she may also increase their pay rate without the doctor's knowledge. Lastly, he or she might submit more overtime hours than were actually worked.

7. Stealing Drugs: Perpetrators might be stealing prescription medication for their own use or to sell.

8. Merchant Refunds: The perpetrator issues a patient refund onto their own credit card.

9. Fake Vendor: Perpetrator will pay invoices from a fake company, which is really their own.

10. Employee gives the patient a fictitious receipt for payment.

11. Employee gives the busy dentist a stack of checks to sign and includes an extra check and does not include the support for such checks.

12. Refund check is made out to a fictitious patient. The employee has previously opened an account under that patient's name.

13. Employee writes off an account as uncollectible and then takes the cash payment.

14. Employee takes money from petty cash, knowing that the fund is not carefully checked.

15. Employee takes cash payment, records it on the patient ledger card, but not on the day sheet. (Procedure may vary with practice management software.)

16. Employee purposely destroys the office records to facilitate looting the practice.

17. The employee is given the power to sign checks and makes checks to non-existent suppliers whose accounts are set up in the employee's name. Look for P O Box addresses.

18. On the way to the bank, the employee keeps some of the cash and makes a new deposit slip for a lesser amount.

19. The employee does not bill patient whose payment has been taken and thus not posted.

20. The employee will substitute the insurance check payment for cash taken and does not post the insurance payment as being received.

21. Employee will remove any patient complaint about failure to credit payment from the incoming mail or incoming phone call.

22. Employee makes a rubber stamp with the doctor's signature and uses it to make an extra paycheck to himself/herself.

23. Employee invoices the patient below the actual amount and splits the difference.

24. Employee raises the amount on checks after they have been approved and signed.

25. Employee purposely pays bill twice—then pockets the resulting refund from the supplier and / or vendor.

26. The employee forges the dentist's signature to a vendor check. Look for rubber stamp here as well.

27. The 2nd Bank Account - Employee opens a checking account in the name of the dentist and is the only one who can sign on the account since the employee requested the signature cards on behalf of the dentist. Over time, the employee segregates checks from patients, insurance companies, etc., and makes deposits to the 2nd account they set up which the Doctor is unaware of.

28. The employee turns off the computer "audit trail".

29. On all daily deposits, the patient name should be listed along with a copy of the Patient Checks to support such deposit.

30. Employee posts negative production to patients account.

31. Employee issues credit to prior periods to offset current treatment.

32. Employee increases gross payroll by increasing withholdings, resulting in same net checks.

33. Employee uses practice debit or credit card for personal purchases.

34. Employee steals supplies to sell online via E-Bay.

SAFEGUARDS

1. Prescreen employees:
   a. Contact the two most recent employers for a reference check before hiring, particularly with the front office staff.
   b. If an applicant is licensed, check the status of their license on the relevant state board website.
   c. Contact third party companies such as ADP Screening and Selection Services (800.367.5933), or Employment Screening Services, Inc. (800.473.7778), to obtain a background check on each prospective employee, including a comprehensive review of their driving record, credit history, and criminal records. High levels of personal debt and other symptoms of family economic distress are classic signs of a potential embezzler. Under most state laws, doctors must obtain permission from the candidate to perform this background investigation
   d. Make sure your Employee Handbook clearly states that any amount of embezzlement will be grounds for immediate termination. Make sure this is known to all employees and that you have the signed handbook delivery receipt as evidence that the employee received and read the handbook.

2. Create a division of duties: See **Appendix A** for how we recommend that you segregate the responsibilities.

3. Establish embezzlement prevention controls
   a. You (the doctor) must sign all practice checks. Make sure an invoice or packing slip is presented and that the amount of the check equals the amount shown on the document. Do not use a signature stamp.

b. Restrict access to the practice management software to (1) only those individuals that need the access and (2) only the access level they require. Limit access Make sure all employees have their own unique password. It's always a good idea to force a password change every three months. No shared passwords.

c. Only doctor can approve write-offs.

d. Require approval for write-offs exceeding $XX

e. Only practice email can be used for practice business. No personal email addresses may be used.

f. Don't allow the use of a miscellaneous adjustment category in your practice management software to make write offs. Net production is a number that can be easily manipulated. Instead, create separate adjustments for managed care, insurance, family discounts, etc. so that you know why each adjustment was made.

g. Have a representative from your practice management software vendor show you how to set up security settings. Be sure you know how to use them.

h. Follow our system of accounting, which requires the reconciliation between the practice management software income (from day sheet), the accounting software income, and the bank statement. All three points must be reconciled monthly.

i. Keep a lockbox in your office for all cash and checks received.

j. Make it well known to all employees that both you and your accountants are reviewing the finances of the practice each and every month.

k. Keep onsite drug supplies tightly controlled, and maintain a perpetual inventory to prevent staff from removing drugs for personal use, or giving or selling them to others. Perform periodic audits of the drug supply inventory to check for theft or misappropriation.

l. If you have a petty cash drawer, use our "Petty Cash Accounting Template" form in your Net Client portal. Go to the "File Exchange>Accounting Coordinator Resources" folder for the document.

m. Prohibit staff from ordering from telemarketers, who often engage in fraudulent billing and use the doctor's credit card for unauthorized charges.

4. Provide oversight of the accounting and embezzlement prevention process:

a. Review your financial statements closely. Use our "Financial Statement Guide" to help you.

b. Daily, take a minute to review the Audit Trail report from your practice management software. This report will show changes made to financial data such as patient payments, insurance payments, credit/debit adjustments, as well as information in the Family File and user passwords. Make sure all information is familiar and investigate any transactions that are unusual or unfamiliar. See **Appendix B** for a sample report and explanation for Dentrix.

c. Review bank statements monthly (both checking account and credit card accounts) for any unusual or unfamiliar transactions.

5. Dentist should not sign blank checks.

6. Don't give employees Company ATM cards or credit cards.

7. Dentist should make random spot checks monthly by making a private list of patient names and fees for those he treated on a given day. The dentist list is then compared against day sheets, ledger card posting and / or computer records. Missing entries should be investigated quietly and behind the scenes.

8. The dentist should spot check by sending a statement to a bad-debt patient whose account has been written-off. If they have paid, the billing may result in an indignant reply.

9. The dentist should always have the day's mail delivered to them unopened.

10. Only the dentist should be authorized to write-off an account. Such write off's should be initialed by the dentist.

11. A sign stating "Please retain your receipt for all payments made at time of service" should be placed at the reception window.

12. A duplicate receipt book should be used. Original copy should be given to patient. All receipts should be pre-numbered and pre- printed with such numbers.

13. Charge slips should be pre-numbered (usually through your Practice Management Software). At the end of the day, verify the numerical sequence of numbered slips to ensure that there are no unaccounted for "voids" among the slips.

14. Have the monthly bank statements mailed to the dentist's home address or the Dental CPA's business address.

15. The account payable checks should not be signed by the dentist unless a bill or stamped invoice is attached showing that service or supplies were received and who approved them.

16. The dentist should not sign a refund check to a patient unless he or she sees the patient account card or computer record that relates to the patient refund.

17. Every disbursement from petty cash should require documentation. The petty cash fund should only be replenished with a check made out to "petty cash".

18. Employees should be bonded with a blanket bond. Let the employees know they are being bonded.

19. Check references before a new employee is hired. Ask the employee if there is any objection to being bonded.

20. Pay the employees competitive salaries. Consider appropriate raises. Provide fringe benefits as practical.

21. Consider a monthly check of the patient ledger card balances versus day sheet balances. Handle in a similar manner for computer records. Investigate significant variances.

22. Always prepare daily deposit slips and bank deposits. Attach the validated daily deposit ticket to the day sheet along with the Credit Card batch out slip to support the day's collections.

23. Have a surprise audit conducted by an outside Dental CPA.

24. Segregate employees' financial responsibilities—posting the daily production, posting cash receipts, posting patient adjustments.

25. Make sure that the amount of daily deposits equals the day sheet total

26. Consider using a check imprinting machine.

27. Review professional courtesies & discounts.

28. On a daily basis, print the day sheet for the dentist to take home with them for their individual review of the day's activities.

29. Periodically re-run days sheets from prior periods to compare to original days run.

30. Have a Dental CPA audit on a quarterly basis a random sample of patients. A confirmation letter is sent by the accountant showing the balance due on the account. The patient replies directly to the accountant's office in the event of discrepancies.

31. Overtime Payroll - Require that payroll checks approved and signed (time slips) for any overtime payments.

32. The dentist should learn enough about the details of the internal accounting system to let the employees know they are interested in the financial affairs of the dental practice.

33. Each employee should be required to use their earned vacation time each year or lose it.

34. Front desk jobs should be rotated at unexpected intervals so that successor has a chance to review predecessor's records.

35. The dentist should not accept payment directly from patients, borrow cash from office receipts, or otherwise fail to assure that all financial transactions are accounted for.

36. Employees should not be allowed to sign checks for the dentist.

37. If embezzlement is suspected, notify your attorney first and then the accountant and/or consultant.

38. Cash and checks should be placed in the office locked cashbox immediately upon receipt.

39. If funds are removed from the cashbox by the dentist, a personal check should be left for the amount taken and with an indication of the patient's name.

40. The dentist should be above reproach in his/her conduct.

41. Be sure to ask your business insurance agent about a 3-D policy (destruction, disappearance and dishonesty) of business records.

42. In your employee manual, mention you will prosecute to the fullest extent of the law and that employee embezzlement will not be tolerated.

IF YOU'VE DISCOVERED YOU'RE A VICTIM

If you detect embezzlement in your practice, you may be tempted to simply terminate the employee and move on. However, remember that embezzlement is a crime and you should therefore approach it with a legal mind frame as if you were a lawyer. Immediately terminating an employee might endanger you further and will most likely allow the perpetrator to commit embezzlement at a future employer.

Before any action is taken, you should stop the embezzlement by requesting that the employee take a few days off. Remove all remote access given to your practice management software immediately. During that time, investigate the incidence and determine to what extent the embezzlement has occurred. You may need the help of your accountant to do this. Establish the evidence of the embezzlement to the fullest extent possible. As soon as the evidence is acquired and documented, then terminate the employee. Upon doing so, refer the employee to the handbook section that discussed embezzlements as a grounds for immediate termination. We qualify this recommendation by stating that you should consult with an employment attorney regarding this employee and solicit guidance specific to the situation. Nonetheless, once you have evidence that embezzlement has occurred, you should consider these further options:

1. Prosecute the embezzler;
2. Sue the embezzler civilly; or
3. Prosecute and sue the embezzler.

If you have enough evidence, you should both prosecute the embezzler and sue. By prosecuting, you might be saving another employer from becoming a victim of embezzlement. By suing you might be able to recover some or all of the stolen funds. Consult with a employment or business law attorney before doing this.

APPENDIX A: SEGREGATION OF DUTIES MATRIX

Staff 1 (E.G. Office Manager)	Staff 2 (Biller)	Clinical	Doctor	CPA
1. Posts payment to the practice management software. 2. Enters fee adjustments/write-offs in the practice management software. 3. Enter expenses into the bookkeeping software. 4. Daily enters all collections on the day sheet into the bookkeeping software and verifies it agrees with the PM software. 5. Monthly, reconciles deposit and expenses in the bookkeeping software to the bank statement. 6. Daily compares patient treatments rendered to the billing records to make sure they agree. 7. Print checks directly from within the accounting software and uses pre-numbered checks. All checks should be accounted for.	1. Opens mail. 2. Immediately stamps all checks as "For Deposit Only" upon receiving in the mail. 3. Calculates deposit totals per day, prepares bank deposit slips, and gives to doctor. 4. Compares daily deposit slips to day sheet to make sure they agree. 5. Staples together a copy of the deposit slip, day sheet, and terminal batch out report and files in a monthly folder. 6. Manages the Petty Cash box. Submits petty cash ledger form and submits it to the Office manager for review each month. (We can provide a petty cash ledger form). 7. Collects time sheet detail and submits to doctor for signature. Then submits to the office manager for processing.	1. Enters patient treatment performed according to dental charts.	2. Deposit funds at bank. 3. Sign all checks (matching amount of check to accompanying invoice). Do not use a signature stamp. 4. Approve all credit card purchases. 5. Review payments and checks from bank and credit card statements for unusual activity. 6. Authorize and review all adjustments to patient accounts on a regular basis. 7. Review the practice management software report for unauthorized changes to a patient's account. 8. Review all refunds. Refunds are commonly issued to fictitious patients and deposited into the employee's personal account. 9. Review financial statements for unexpected changes in collections and expenses. 10. Review and sign the employee time sheet at the end of each pay period. 11. Review payroll reports and look for any irregularities. Cross reference it against the approved time sheet that you signed when payroll was processed. 12. Review your merchant processing statement for credits. Credits should be rare and may indicate an employee is crediting their own credit card through a credit card terminal. 13. Review lab bills and make sure you recognize the patient's name. 14. Review your personal credit report annually.	1. Oversee the accounting system. 2. Help establish the Embezzlement Control System. 3. Review all transactions. 4. Enter all non-cash transactions. 5. Review bank reconciliations. 6. Prepare financial statements. 7. Prepare financial statement analytics to monitor income and expense trends. 8. Process all payroll. 9. Prepare books for tax return to maximize legitimate deductions. 10. Provide education on the accounting system.

APPENDIX B: SAMPLE TAKEN FROM THE HENRY SCHEIN WEBSITE ON ITS DENTRIX G5

It happens in every dental office. You look at information in Dentrix at some point in time, and when you look at the same information again later, it has changed—payments have been deleted or adjusted, new procedures have been added outside of an appointment, or previously posted procedures have been deleted or changed. It's important to know who is making these changes and why.

The Audit Trail Report allows you to track changes made in Dentrix. Among other things, this report lists changes made to financial data such as patient payments, insurance payments, credit/debit adjustments, as well as information in the Family File and user passwords.

With Dentrix G5, the reports are even more helpful, with sequential numbering for fraud protection. Each time someone previews or prints a report, the Audit Trail entry now includes the type of report, the audit number, and the date and time stamps of the report. If you have enabled passwords, the Audit Trail also includes the user name of the person who generated the report. The sequential numbering can alert the doctor to possible instances of fraud in the office.

To generate an Audit Trail Report:

1. From the Office Manager's **Maintenance** menu, click **Audit Trail Reports.**
2. Under **Select Report Types**, select **Standard**, then click **OK.**

Below is an example of an Audit Trail Report and the type of information the report provides.

AUDIT TRAIL REPORT
My Dental Practice

Date: 06/23/2011

Page: 1

(A) (B) (C) (D)

(E) (F)

```
DATE: 02/17/2011  TIME: 09:14:46  USER:    TYPE: Appointment
Valgardson, Gunther    05/24/2011  12:00p  HYG1  OP-3   30min  FIXED
Valgardson, Gunther                        HYG1         30min  FIXED  Broken

DATE: 02/17/2011  TIME: 09:15:06  USER:    TYPE: Appointment
Valgardson, Adrian     05/24/2011  1:00p   HYG1  OP-3   60min  FIXED
Valgardson, Adrian                         HYG1         60min  FIXED  Broken

DATE: 02/17/2011  TIME: 09:15:51  USER:    TYPE: Appointment
Young, Bridgette       05/24/2011  12:30p  HYG2  OP-4   60min  FIXED
Young, Bridgette       05/24/2011  12:30p  HYG2  OP-4   60min  ASAP

DATE: 02/17/2011  TIME: 09:16:40  USER:    TYPE: Appointment
Lopez, Rosie           06/18/2011  9:40a   DDS2  OP-2   50min  FIXED
Lopez, Rosie           06/18/2011  9:40a   DDS2  OP-2   50min  ASAP

DATE: 02/17/2011  TIME: 09:18:57  USER:    TYPE: Appointment
Manny, George          06/21/2011  9:20a   DDS1  OP-3   30min  FIXED
Manny, George                              DDS1         30min  FIXED  Broken

DATE: 02/17/2011  TIME: 09:22:05  USER:    TYPE: Appointment
Reeves, Melanie        06/17/2011  11:40a  DDS1  OP-2   30min  FIXED
Reeves, Melanie        06/17/2011  11:40a  DDS1  OP-2   30min  OPEN

DATE: 02/17/2011  TIME: 09:23:20  USER:    TYPE: Appointment
Doe, Jane              06/15/2011  10:50a  DDS2  OP-3  360min  OPEN
Doe, Jane              06/15/2011  9:10a   DDS2  OP-3  360min  OPEN

DATE: 02/17/2011  TIME: 09:23:34  USER:    TYPE: Appointment
Doe, Jane              06/15/2011  9:10a   DDS2  OP-3  360min  OPEN
Doe, Jane              03/25/2011  9:10a   DDS2  OP-3  360min  OPEN

DATE: 02/17/2011  TIME: 09:23:38  USER:    TYPE: Appointment
Doe, Jane              03/25/2011  9:10a   DDS2  OP-3  360min  OPEN
Doe, Jane              03/25/2011  8:00a   DDS2  OP-2  360min  OPEN

DATE: 02/17/2011  TIME: 09:24:59  USER:    TYPE: Appointment
Duke, Bo               03/24/2011  9:20a   DDS2  OP-3   30min  FIXED
Duke, Bo               03/24/2011  9:20a   DDS2  OP-3   30min  OPEN

DATE: 02/17/2011  TIME: 09:26:04  USER:    TYPE: Appointment
Duke, Bo               03/24/2011  9:20a   DDS2  OP-3   30min  OPEN
Duke, Bo               06/24/2011  9:20a   DDS2  OP-3   30min  OPEN
```

Audit#: 172 (G)

A. **Date** — The date of the change.
B. **Time** — The time of the change.
C. **User** — The Dentrix user who made the change. (This will appear blank on the report if you have not set up and enabled passwords in Dentrix.)
D. **Type** — The audit entry type. The following types can be included in this report:
   o Completed procedures
   o Guarantor payments
   o Insurance payments
   o Insurance/employer join
   o Adjustments
   o Patient changes
   o Appointment changes
   o Prescriptions
   o Password/login
   o Generated day sheets
   o Generated audit trails
E. **Original Data** — The original data before the change.
F. **New Data** — The updated data.
G. **Audit Number** — The sequential number of the Audit Trail Report.