

Preventing Embezzlement



Pediatric dentists are generous and compassionate as they work with children and parents day in and day out and deal with the reality of a parent being able to afford the needed care. There are times when a child desperately needs treatment that a parent cannot afford. Left untreated, this child will suffer and their health will be compromised. Out of compassion, the doctor may tell their office manager that the treatment will be done pro bono. It is always satisfying to keep a child from suffering; after all, this is why pediatric dentists do what they do. That same office manager may be struggling financially and think, "If the doctor can give away treatment, then he might not miss another few dollars of collection. What's the big deal? After all, doctors make a lot of money and may not notice if a small amount is gone." The office manager rationalizes this by thinking that she is not paid enough for how hard she works. Long gone are the days of missing stamps or office supplies; these days embezzlers feel they deserve a lot more. The average embezzlement in a dental practice is \$140,000 according to Prosperident, a company that specializes in investigation of frauds and embezzlements committed against dentists.

Signs of Embezzlement Behavior in an Employee

- Has an addiction or adverse financial issues.
- Never takes a vacation, or sick day. They are always in the office when no one else is, (this is typically when they are manipulating accounts).
- Territorial regarding duties, work space and computer.
- Never leaves the front desk while patients are there and never lets anyone else check a patient out.
- Overly resistant to change.
- Uncomfortable with the doctor asking questions about charges, collections and what is happening at the front desk.
- Does not want to get rid of an old version of practice management software.
- Does not let patients talk to the doctor about accounts.
- Very resistant to a consultant or financial advisor looking through practice reports.

Embezzlement Red Flags

- Large intervals between deposits. Deposits should be prepared daily and reconciled to the day sheet.
- Write-offs are excessive.
- Doctor is working more than ever and not making any more money.
- Biggest sign: receptionist who makes \$40,000 per year is wearing designer clothes and driving a brand new Lexus. Do not be surprised if this is your most trusted employee who also watches your home when you are away and babysits your kids. Embezzlers will ingratiate themselves to the doctor so much so that the doctor would never think this person would do anything to harm them.

Ways Embezzlement Can Occur

- Adjustments to Balance Due—adjustments can be made to write-off the balance that is due. This allows the embezzler to take cash or check payments. If an embezzler is taking checks, they have fraudulently opened an account in the doctor's name at a bank and are depositing the checks into that account. Your bank can do a search for any other accounts that have your name.
- If an embezzler adjusts off a balance due that was charged to an insurance company, this is considered insurance fraud and your license is at risk.
- Credit card refunds—front desk personnel and even assistants have been caught giving themselves refunds on their own credit cards, this is equivalent to printing money. Select a merchant processor that provides refund security procedures. These are safeguards against processing refunds to cards that have never been charged or amounts that are greater than the original charge. Doctors should review their merchant account statement monthly for correctness.
- Check alterations—embezzlers have been known to white out the doctor's name on a check, insert their own name and then do a photo deposit. The bank is none the wiser.
- Stealing out of payroll—managers who handle payroll can pay themselves a bonus or extra weeks of vacation. We know of an office where an office manager stole 24 weeks of vacation from her employer because he never checked payroll before it was submitted. To make matters worse, she was a salaried employee and her vacation pay was already included in her salary.
- Paying their personal bills—if an employee is paying your practice bills, they may also be paying their bills with your checks or your credit card.



- Over ordering supplies—it has been known that assistants order extra handpieces and sell them on Ebay. Also, assistants purposely return the extra supplies, watch for the refund check and deposit it into a fraudulent account they have set up in the doctor's name.

Guarding Against Embezzlement

Trust but verify. Embezzlement can be minimized and prevented by putting proper systems in place and holding the front desk team accountable. This will give you peace of mind. Below you will find some methods that will help protect a practice from embezzlement.

Review Reports Monthly

Monitor the reports each month that should be run as part of your end of month closing process. If your office manager creates an Excel spreadsheet of monthly practice numbers and statistics for you to review, be sure the totals on the spreadsheet match against the reports generated by your practice management software. We have seen examples of doctors thinking the practice collections were healthy because the doctor was only looking at the report the embezzler was creating herself. Reports that should be reviewed each month are:

- Adjustment report
 - Embezzlers typically enter a partial cash payment, take the difference and adjust off the balance. Look at the adjustments on your day sheet at the end of each day to be sure they seem appropriate. Every adjustment that is made on an account should have the reason for the adjustment stated on the account. Make sure the reason for the adjustment makes sense. If the front desk staff knows that you are checking for accuracy on a daily basis, this will be a deterrent for embezzlement.
 - Watch for too many entries or adjustments on an account or odd adjustments that don't make sense. If an adjustment looks strange, ask to see a print-out of the account ledger and ask for an explanation of the adjustment.
 - Create a threshold for adjustments that can be done without the doctor's permission.
 - Review monthly accounts assigned to 'No Bill' status. Be sure you know why someone is not receiving a monthly statement; these patients should only be approved by the doctor.
- Patient refund reports
 - Shows all patients who were sent a refund. It should include charge and payment transactions to justify the refund and the reason the refund was made.
- Aging report
 - Shows patient name, and aged balance. Be aware of the Accounts Receivable (AR) total; this amount

should be a 1:1 ratio with your average monthly production. Also, the AR amount that is 61 days and older should not be more than 18-24 percent of the total AR.

Review Statements Monthly

- Look for changes, discrepancies or unusual entries on the following:
 - Bank statement for unauthorized checks.
 - Merchant account statement (patient credit card payments) for unauthorized refunds.
 - Credit card statement for unauthorized charges.
 - Payroll report for unauthorized payments.
 - Dental and office supply vendor statements for change in monthly expenses and refunds.
- The owner/doctor should have the administrative passwords to all websites and accounts. User access should be granted to these sites with various rights to staff members based on their responsibilities. Example: Your merchant processing account should allow each front office team member to have their own log-on for processing credit cards or processing merchant reports. The doctor should be the only one to have the administrative rights to set this up. The ability to delete or void transactions should be restricted to the appropriate front desk staff.
- Only the owner/doctor should hold the full administrative rights to the practice management software to prevent the alteration of audit trails. An audit trail is a report that will provide information on who entered, altered or deleted transactions in your software program. Most dental software programs have this report and it should be restricted to the highest administrative level of access. Furthermore, it should not allow the deletion of payments or accounts. This report should be run and reviewed monthly. Look for deletions of payments, account balances or whole accounts.
- End of day procedures should include: reconciling the day sheet total collections, and deposit total to prevent the alteration of ledger entries after the reports have been printed. Create a secondary verification of the day sheet and deposit that is checked several days later. Audit trail reports help identify any transactions that might have been altered or deleted after a day has been closed out.
- Follow best practices for receiving payments and balancing the deposit.
 - When cash is received, it should be placed in a sealed envelope, the amount written on the outside, and initialed by two front desk team members.



- The sealed envelope should not be opened by any member of the front desk team. The envelope is placed with the deposit and opened at the bank.
- The end of day process should include balancing total amounts (from the end of day report) of checks to (actual) checks, cash to cash, credit card payments to credit card payments. Not just the total deposit amount; an embezzler could receive a cash payment, pocket the cash, but post a credit card payment on the patients account.
- The person that closes out at the end of day, should NOT be the same person that makes the deposit. The deposit should be verified by a separate team member or doctor and deposited in the bank. An embezzler can remove cash or checks after they leave the office and make a new deposit slip.
- An electronic funds' transfer is the embezzler's worst enemy. Since the funds are automatically deposited into the doctor's account, the opportunity for embezzlement does not exist. Set up all possible insurance payments with an electronic funds transfer.
- Keep minimal petty-cash and a petty-cash log. Verify the balance as part of the end of month procedures.
- Understand the cash flow in your business so if discrepancies occur, these will be obvious.
- Know how to print and understand the practice management software reports.
- Do random spot audit checks of charts for charges and payments. Match last week's printed day sheet to a newly generated report for that same day. The collection and production number should match.
- The staff should know that you are keeping an eye on your business by being interested in what goes on at the front desk, understanding the payment and billing process and reviewing the practice management software and reports.
- Honest people are completely comfortable and invite the doctor to look into how things are being done at the front desk. If you offend a staff member because you are implementing these safety controls, that is more reason for you to stay involved and know what is going on.

There are forensic accounting investigators that specialize in working with dentists and have questionnaires dentists can use to help determine whether or not embezzlement may be occurring. Only the doctor should be choosing who they will do work for and not get paid for it, let that never be a staff member's choice!


“If you don't change the direction you are going, then you're likely to end up where you're heading.”

~ John Maxwell

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Published four times per year as a direct membership benefit by the American Academy of Pediatric Dentistry (AAPD), 211 East Chicago Avenue, Suite 1600, Chicago, IL 60611-2637,



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