

# Practice Finance

## [Embezzlement-proof your practice]

**Dentistry** is a \$65 billion-dollar-a-year industry and growing. So is the chance for embezzlement.

True or false? Women are more trusting in relationships; therefore, female dentists are more likely to miss embezzlement in their offices. *False.* According to Donald P. Lewis, DDS, CFE, women are just as vulnerable as men. However, women tend to be more observant of employees and will notice if a team member has \$600 Blahnik shoes or a Gucci handbag. Your heightened awareness is an asset in saving you thousands of dollars in fraud.

Embezzlement costs American businesses \$500 billion annually. Dr. Lewis, one of two dentists certified as a fraud examiner, says one out of four dentists has or will experience embezzlement. With a few preventive measures, you can make your practice embezzlement-proof.

Warning signs for your practice:

- ▼ Low collection percentage
- ▼ High (and climbing) accounts receivable

### An Elaborate Embezzlement Scheme

Mary, a prospective employee, had a great interview and impeccable references. Confident, well-spoken, and neat, she was experienced in insurance companies claims, including several contacts who could expedite claims. She was hired right away.

As a model employee, Mary arrived early for work and stayed late. She didn't take vacations because it might impact office efficiency. To save the doctor time, Mary did everything — collections, billing, and deposits — quickly and efficiently.

Over six months, Mary stole more than \$71,000 from the practice, not counting the insurance claims she never filed. She stole \$80,000 from another practice in just two months! Both practices continue to uncover lost revenues from insurance claims not filed or patient payments funneled into Mary's personal bank account. Because she had access to the signature stamp of both practices, she was able to write checks for supplies sent to her home address. Mary used funds stolen from the second practice to pay restitution to her great aunt from whom she had stolen \$170,000!

- ▼ Excessive overhead in several categories
- ▼ Employee lifestyle changes
- ▼ Disorganized books or computer entries

A proficient embezzler can use these three major areas in your practice:

♦ **Cash** — It's easy to steal and hard to trace. An embezzler skims the cash and pockets it. Occasionally, he will create fictitious refunds or discounts to himself.

♦ **Accounts receivable** — Often, an embezzler will use "lapping," which can begin with a small "loan" that goes into his bank account. To cover up the shortfall this creates, he takes money received from Patient B and credits Patient A's old receivable (the one he "borrowed" from). Patient B eventually gets credit for his payment, but there is a manufactured lag time. Usually what starts out as a one-time "loan" becomes permanent and snowballs. Increased accounts receivable or unusual write-offs may be evidence of lapping. Creative embezzlers set up fictitious accounts with an elaborate system of write-offs, taking payments for previously written-off accounts receivable.

♦ **Accounts payable and inventory purchasing** — Many embezzlers gain access to the practice credit card and charge personal items to the practice. Some pay personal bills with practice invoices. Others set up fictitious invoices for supplies from fictitious companies. Sometimes suppliers or other employees help, but most embezzlers act alone.



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## How to prevent embezzlement

✧ **Hire smart.** Do background and credit checks. Check a prospect's resume and family, health, or economic problems. (Don't violate laws like EEO or ADA).

✧ **Cross-train staff.** Cross-training on similar tasks keeps your staff motivated. Two staff members performing daily administrative tasks will check each other.

✧ **Bond employees.** If a staff member becomes a criminal, you will be protected.

✧ **Let your CPA help.** Have your

CPA prepare *usable* financial statements. Your expenses should be categorized for monthly and yearly comparisons. Check for discrepancies. Since most accountants lack access to a practice's books, an observant dentist is more likely to discover fraud than an accountant.

✧ **Separate duties.** Post clear job descriptions. Make sure the same person doesn't perform the same tasks each time. One employee could collect cash and the other could credit patient accounts. Let one employee make up deposit slips

and the other take care of deposits.

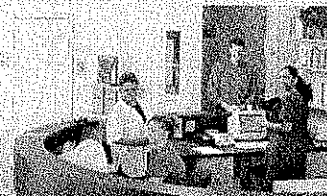
✧ **Compare documentation.** Deposit cash in the bank periodically. Compare your schedule to the daily revenue tally, then trace the revenue to the bank statement. Confirm that all patient credits are either deposits or explained write-offs. Use prenumbered routing slips and account for any missing or voided slips. Jennifer de St. Georges, a dental practice-management educator, suggests a great way to find discrepancies. At the end of the week, pull 15 random patients from that week's appointments. Reconcile their treatments back to the posted patient accounts. Let staff members refile those patient files to let them know that you are checking your business.

✧ **Sign every check yourself.** Never use a signature stamp. Approve all invoices and compare them to the checks, attaching duplicate computer-generated checks to your invoices. Make sure you receive the supplies you order. Use sequential check numbers. Keep voided checks, and designate them as such.

✧ **Make sure bank and investment account statements go directly to your home.** Always review the checks that clear your account.

✧ **Set a good example.** If you skim cash or under-report income, it sends a message to your staff. Have the same standard for your staff and yourself.

Once the proper systems are in place, Dr. Lewis says it should take about five to six minutes each day to review and reconcile important areas of your accounts. If you think you have an embezzlement problem, don't panic — investigate further. Thoroughly review the situation yourself or get outside help. If you have documentation of embezzlement, consult an attorney immediately or a special forensic accountant specializing in detecting fraud. Whatever you do, prosecute to keep another practice from being embezzled.



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