The stories read like popular fiction. Unfortunately, they are true. The outwardly stable, unquestionably loyal employee commits a crime that no one would have expected, least of all her/his employer. More puzzling is the fact that often this member of the staff doesn't have a criminal record.

In fact, according to the 2008 report of the Association of Certified Fraud Examiners (ACFE), only 7 percent of those committing fraud have prior convictions and a mere 12 percent have been fired by a former employer as a result of fraud related conduct.

However, what is perhaps most disconcerting is that many of the characteristics that make up this person's profile would also be the sketch for your “ideal” team member. “Dedicated, takes very little time off, first in the office and last to leave, will even take work home, is very particular about how things get done.”

Some may say she/he is controlling while others contend it's a commitment to doing a job well. Working her/his fingers to the bone, this devoted employee is quietly slipping thousands of dollars under the table and into her/his pocket.

According the ACFE’s most recent report, U.S. businesses lose an estimated $949 billion in annual revenues to fraud despite increased emphasis on anti-fraud controls and recent legislation to combat it. If that weren’t troubling enough, the U.S. Chamber of Commerce estimates that 75 percent of all employees steal at least once, and that half of these steal repeatedly.

Who are the thieves?

Fraudsters are represented by all occupations — CEOs, bank tellers, fire-fighters, payroll clerks, senators, even Catholic priests. And, in some cases, they are shamelessly brazen.

One reported case involved an employee who routinely crossed out the employer’s name on checks written from customers and inserted his own. No Write-Out®, no fancy chemical concoction to erase the ink, he just struck through the name on the check and made it payable to himself.

And you probably thought the bank would catch something so blatant, right? However, banks process literally tens of thousands of checks per minute so they cannot catch every suspicious-looking one.

In the case of a parish priest, he embezzled more than $1 million from two churches. The crime wasn’t exposed until a donor requested a receipt for tax purposes from the church, which had no record of the donation. However, the contributor had his canceled check. This led to the arrest and conviction of the priest.

No organization or business is immune to employee theft, and health care businesses, such as dental offices, are among the top three businesses to be victimized by dishonest employees.

With the average loss per fraud case among small businesses at $200,000, that kind of financial hit can be huge for small dental practices, many of which operate very close to the margin.

In this economy, any increase in expenses or reduction in revenue could be catastrophic. Even more problematic is the fact that lenders are less likely to extend additional credit these days to cover such a shortfall.

How do they steal?

Dishonest employees are fraudulently writing company checks, skimming revenue and engaging in fraudulent billing. In small operations such as dental practices, internal controls tend to be lax and accountability slim, thus providing an ideal environment for employee theft.

Checks, in particular, present a veritable smorgasbord of opportunities for the small business embezzler.

As another thief discovered, it was a relatively simple exercise to write company checks to herself and then destroy the canceled checks.

Countless fraudsters have discovered the ease of ordering new checks in the business’ name and making them out to themselves. They can steal insurance checks or sign checks using a signature stamp.

In a multitude of other cases, the trusted employee accepts payment from the patient or customer, deletes the transaction on the computer and keeps the payment. Many patients no longer get their canceled checks, let alone actually look at them.

Then there are the fraudulent billing schemes. These take a bit more effort than your typical check fraud.

One small employer was building a new office only to discover by accident that a trusted employee, who just happens to be in charge of paying the bills, had set up a fictitious painting business and was billing the employer for work never done.

Motivation to steal

What is it that makes the other-wise standard employee turn to crime? Research indicates that there are several inducements that can influence someone’s decision to embezzle, but three factors must be present. It’s known as the “fraud triangle.” The employee must have the incentive, the opportunity and the rationalization.

Incentive may be a gambling problem, alcohol or drug addiction, or a shopping addiction. It can also be motivated by financial struggles through an economic downturn such as we are experiencing now.

The person may be disgruntled or is stretched beyond his or her financial means. The employee may be experiencing a personal crisis such as a divorce, serious illness or a death in the family. The employee becomes despondent and disillusioned, all of which provide incentive to commit the crime.

The opportunity typically comes in the form of lax internal controls. One person has total control of practice revenues. There are few, if any, checks and balances and an almost total lack of supervision over that highly trusted employee who seemingly can do no wrong.

Then there’s rationalization. The employee tells himself or herself that she or he will just take a little loan and will pay it back. Then the employee takes a little more the next time. Or the employee hasn’t received a raise and contends she/he deserves the money.

Alternatively, perhaps an addiction is taking over his/her life; medical bills have skyrocketed; the spouse lost his/her job. "The dentist makes so much money, she/he will never notice." Whatever form the rationalization takes, often, in the employee’s mind, she/he is simply correcting a perceived wrong.

Who’s most likely to be embezzling from your practice? Fraud experts refer to it as the 10-10-80 rule: 10 percent of people will never steal, another 10 percent will steal at any opportunity, and the other 80 percent will go either way depending on how they rationalize a particular opportunity.

The good news is that for those in the 80 percent category, if they believe they will be caught, they won’t take the chance.

Don’t be an easy target

Small businesses such as dental practices are prime targets for fraud and embezzlement. Why? Practice owners can be very naïve and far too trusting, giving almost total financial control to an employee. In some cases, dentists don’t even know how or where to access their financial reports.

In addition, there is often a close relationship between clinicians/owners and employees. They
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become trusted friends, and this, sadly, encourages dishonest employees to take advantage of their “dentist friends.”

As the ACFE reports, the most common small business scheme is check tampering. It frequently occurs when one individual has access to the company’s checkbook and also has responsibility for recording payments and/or reconciling the company bank statement. Therefore, the first order of business in protecting practice finances is to divvy up the financial duties.

The practitioner may only want to do the dentistry, but this attitude is inviting disaster.

As one Wisconsin dentist discovered not long ago, his trusted employee of 28 years who had “total run of the practice’s financial operations” was accused of stealing at least $41,000, and that was believed to be just the tip of the iceberg.

Separating billing, collections and delinquent account responsibilities is critical. The employee making the bank deposit should not be the same employee responsible for checking the deposit slip that is returned from the bank.

Consider rotating the responsibility for making bank deposits among employees, and monitor deposits for unexplained increases or decreases.

Look at the reports daily. In particular, examine the day sheet and the deposit. Investigate any adjustments made on the day sheet.

Pay close attention to increases in refunds or write-offs, large adjustments or missing documents.

Print and review daily an audit trail report. It reflects every transaction that has transpired in the office since the last printed audit trail.

In addition, generate a monthly report listing all patients that have had changes made to their accounts. This helps to identify a recurring problem or detect a discrepancy. Routinely conduct random checks of different accounts.

In practices with small staffs, the dentist must take a much more active role in monitoring the finances. Ideally, the clinician should write all the checks and do her/his own payables.

She or he should reconcile the bank statement monthly, and canceled checks should be sent, along with the bank statement, to the clinician’s home.

In addition, monthly credit card statements should be received unopened and compared with original receipts of purchases. These steps enable the practitioner to know exactly where the money is going.

Checks received should be immediately stamped on the back with the practice’s bank deposit endorsement stamp. Periodically check the account number to ensure it is the practice account. Do not use signature stamps.

All employees should be required to take at least one week’s vacation every year, particularly those in charge of practice finances.

And, most importantly, don’t let the work pile up. During that time, someone else should carry out the vacationing employee’s duties.

Pay attention to key red flags. According to the ACFE report, “Fraud perpetrators often display behavioral traits that serve as indicators of possible illegal behavior. The most commonly cited behavioral red flags were perpetrators living beyond their apparent means (39 percent of cases) or experiencing financial difficulties at the time of the frauds (34 percent).”

Finally, take complaints seriously. If patients claim that they’ve paid but didn’t receive credit, investigate it. If an employee tips you off that something isn’t right, check it out. If you sense that things just aren’t adding up, don’t dismiss it. Ignorance could cost you thousands, if not millions, of dollars.

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