Protecting yourself from employee theft, fraud and embezzlement (part 2)

By Eugene W. Heller, DDS

Other preventative areas
Each office should use a time clock, and the dentist must initial manual entries. Petty cash should be counted and balanced daily. The amount of receipts plus cash on hand should equal the same balance every day.

The outside of the envelope containing the petty cash should be used to monitor the daily balance. Each day, the date, the receipt total, the cash total and the sum of receipts and cash should be listed along with the initials of the person reconciling the petty cash.

When the age of computerization came to dentistry, one of the selling points was that computers would make it more difficult to embezzle. Nothing could be further from the truth.

Whether computer-related, computer-enabled or computer-camouflaged, the use of computers has made embezzlement easier than ever unless the proper safeguards are instituted.

Preventing theft by computer requires a thorough understanding by the dentist of the security features built into the office’s software. This information must be carefully reviewed with the software vendor’s support team to ascertain that access to various features of the system is correctly restricted.

No system should allow the deletion or erasing of accounts or charges by staff or allow deletion/disabling of the entire system.

The statement generator should never be turned off. Any patient complaints relative to payments and balances must be carefully investigated.

Computer reports are designed to assist in avoiding theft problems. But to work, someone (i.e., the dentist) must review them. These will only take a few minutes to review, but this must be done.

Adjustment, refund and write-off reports should be read by the dentist daily. The dentist should scan posting reports daily. The dentist can quickly spot incorrect charges posted for procedures he/she has just performed.

The accounts receivable (A/R) aging report should be checked monthly and discussed monthly with the financial coordinator. The financial coordinator should be prepared to respond to each account over 90 days old with why, what has been done and when payment is expected.

In addition to demonstrating that the dentist is monitoring things, this also greatly assists in making certain that collection procedures are being followed, thereby keeping accounts receivable under control.

Dealing with embezzlement
Dealing with embezzlement, fraud and theft involves four steps. Discov- ery is the first. It is the dentist’s responsibility to diligently observe what is going on in his/her office relative to the handling of money.

If theft is suspected or discovered, the next step is investigation. Before making any accusations, the dentist must make certain that the evidence supports the alleged crime.

This means reviewing entries, reports, patient account records, etc., to gather the hard evidence necessary to confront the thief.

Prosecution is the next step. This is sometimes harder for the dentist than the realization that his/her trust has been betrayed. However, it is a necessary step. If not, the theft will continue, either from you or another dentist. This means calling the police.

Reasons dentists do not prosecute
Why do some dentists elect to forgo prosecution? Topping the list is the fear of a slander suit. Avoiding this allegation is the purpose of the investiga- tion stage.

If you are the evidence, you are not guilty of nor can you be accused of slander. Invoking the police once you are certain you have become a victim will aid in protection against these false allegations.

In addition, many dentists fear to prosecute because of fear of the IRS. After all, they have unreported income. If one fails to report and prosecute the theft, the IRS takes the position that income has been fraudulently under-reported.

If one reports the loss to the authorities, the IRS views this as proof that a loss by theft has occurred and therefore the under-reported income is offset by the theft loss and no charges by the IRS will be levied.

Non-reporting of employee theft can also be the fear of blackmail. Some of the dentists suffering losses from theft are themselves involved in insurance fraud, unreported income and/or income tax evasion. They know the offending staff member is aware of this, and out of fear of retali- ation, they elect to terminate the employee but not prosecute.

Recovery
The last of the four steps of dealing with employee theft is recovery. Total recovery is usually not possible.

Even if successfully prosecut- ed involving a judgment requiring repayment, most staff members involved in theft no longer have the money nor do they possess the ability to repay, even if spread over a lifetime.

Actual judgments issued such as $50 per month until the amount embezzled has been repaid would require 100 years of monthly pay- ments to recover a $60,000 loss (that does not even include interest).

The best chance of partial recov- ery comes from the office insurance policy. Limits of $10,000 to $25,000 are common. The policy will pay the actual amount of loss or the policy limit, whichever is less.

However, most policies require the reporting of the loss to police and prosecution if advised by the local district attorney.

Conclusion
Most theft, fraud and embezzlement is avoidable if minimal safeguards are instituted.

However, the dentist must take an active role. Dentists who blindly trust their employees are the easiest targets and may suffer the greatest losses.

Many new dentists who acquire their dental practice by purchasing an existing practice face the same problem relative to implementing safeguards as older dentists in prac- tice for many years face.

How can you solve this dilemma? Blame it on your accountant.

Tell your staff that your account- ant has recommended certain changes be made in how things are done because this represents better compliance with GAAP (generally accepted accounting principles). In this manner, these changes will barely be questioned, except perhaps by a staff person who is guilty of theft.

About the author
Dr. Eugene W. Heller is a 1976 graduate of the Marquette University School of Dentistry. He has been involved in transition consulting since 1985 and left private practice in 1990 to pursue practice management and practice transition consulting on a full-time basis. He has lectured extensively to both state dental associations and numerous dental schools. Heller is presently the national director of Transition Services for Henry Schein Professional Practice Transitions. For further information, please call (800) 750-8885 or send an e-mail to ppt@henryschein.com.