Protecting yourself from employee theft, fraud and embezzlement (part 1)

By Eugene W. Heller, DDS

As a practice owner, a dentist will face a multitude of business-related tasks, issues and challenges. The rewards far exceed the drawbacks, but there are challenges.

One of the challenges may be employee theft. Estimates of the number of dentists who will experience theft at least once during their dental career range from 35–50 percent. Estimates in dollar loss range from $100 to $500,000 plus. Loss due to employee dishonesty may take the form of theft, fraud or embezzlement.

With certain minimal protective measures, the majority of this theft is preventable. The key is to understand where the potential exists for theft to occur and to implement strategies to prevent the loss.

Meet the ‘thieves’

Jane the Eraser: Jane simply withheld any cash payments that were made for services and then erased the patient’s account information after posting the payment (and giving the patient a receipt), thereby removing any record of the payment from the system.

Estimated loss: $50,000 plus over a three-year period. The dentist recovered $25,000 from his office insurance plan. Jane was ordered to pay $10,000 in restitution.

Doris the Duplicator: When hired, Doris had successfully lobbied against computerization, convincing the dentist that it was not as efficient as the old manual pegboard system. In turn, Doris kept a duplicate set of patient ledgers.

Payments and receipts were recorded on the duplicate ledgers while charges were posted on the real ledgers. Over a period of 18 months, Doris stole an estimated $40,000.

Mary the Master: Mary was involved in skimming, taking cash and not posting it; layering, a technique involving the taking of checks and withholding them for posting later; and an excessive need for petty cash, going through about $100 per week.

Mary also set up a second business checking account in the dentist’s name (she was the only authorized signer) and subsequently diverted the office credit card deposits to that account.

Mary paid all office bills using erasable ink, which allowed the checks to be made out to her personally, and then she changed them back to legitimate vendors after they cleared the bank. The deposit slips never matched the bank deposits actually made, and subsequently the checking account could never be balanced with the ledger.

The dentists noted that while each year their taxable income had increased over the previous year, according to the computer their accounts receivable had spiraled out of control and were showing a balance of $500,000 plus. During a five-year period, Mary had embezzled $400,000.

Definitions

Different terms can be used to describe loss by staff dishonesty.

Thieves are simply defined as “the taking of another’s property.” Embezzlement is the theft of an employer’s property while in the employer’s trust.

It is also defined as a misappropriation or conversion of entrusted money, property, etc., to the personal use of the employee. Fraud is the intentional deception that causes another to give up his/her money, property, etc.

Understanding the thief

There are different reasons for individuals to steal. It may be the need for money; for others, it is revenge or the feeling they are not compensated properly for their work; and for some, just like gamblers who continue to lose but continue to bet, it is the excitement.

Staff members who steal do share certain characteristics. Many have lifestyles beyond their means; excessive debt from children, spouses/significant others; or excessive habits including alcohol, drugs and gambling.

Employees who are likely to steal are intelligent, knowledgeable in office procedures, personable and friendly. They may be tireless workers who are willing to put in uncompensated overtime — rarely taking allotted vacation time. Basically, they are perfect employees, except for one tiny character flaw — they are dishonest!

Signs theft may be occurring

The most common sign that theft by embezzlement may be occurring is patient complaints regarding their accounts. Also note that constant requests for petty cash reimbursements should be closely monitored. Outright theft of petty cash in a multiple-staff office is difficult to track.

Excess patient account write-offs or adjustments and inactivated accounts are also warning signs, as are increases in accounts receivables with no off-setting increase in overall office production.

Missing documents/invioices, insurance claim forms, explanation-of-benefits (EOB) forms, patient checks, practice checks, checking account records, patient clinical records, patient account records, etc., are definite signs of a problem as are sloppy filing and record keeping.

The practice checking account also holds potential signs of a problem. Unusual deposit patterns and deposits; inability to balance the checking account; and missing sequential checks are all red flags that should be investigated.

Preventing theft

Whether theft takes the form of fraud or embezzlement, theft by an employ-ee shares three steps. For theft to occur, all three components of the theft triangle must be intact.

The first component is motive. The employee needs a reason to steal.

The next component is opportunity. In a dental office, unimpeded access to the funds with minimal or no restraints, checks or accountability provides an easy route to employee theft.

And, finally, the third component is the need to rationalize the theft. It is the excitement. To prevent theft — and hopefully avoid visiting a legal office — controlling access to opportunity must be done to avoid theft with these five steps:

1) Control how money is handled.
2) Split money-handling duties; discrepancies can be more easily noticed in this way.
3) The dentist or his/her accountant must open and balance the bank statement. This means bank statements should be mailed to the dentist’s residence or directly to the accountant.
4) The dentist or his/her accountant 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 hsfs@henryschein.com.

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