

EMBEZZLEMENT

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It is estimated that 3 out 10 orthodontists in private practice will be a victim of embezzlement by their employee (JCO survey). At least 67% of those who embezzle are repeaters. Over a period of years, some practices have lost thousands (even hundreds of thousands) of dollars due to embezzlement. Confession: I only became really **very** interested in this subject when our practice was embezzled on...twice!

Below are listed some of the CAUSES of embezzling:

1. Blind trust by the doctor of his employees.
2. Doctor does not keep abreast of business aspects of his/her practice.
3. Doctor hires new employee without checking references.
4. Doctor sets bad example by taking money from petty cash or cash receipts.
5. Same employee posts daysheet ledger, makes bank deposits, handles mail, etc.
6. Employee feels underpaid and is resentful.
7. Employee lives beyond means.
8. Employee sees evidence of loose financial control of practice.
9. Employee thinks that doctor makes too much money.
10. Doctor often is away from office. Employee handles cash and checks.
11. Doctor hoodwinked by an employee who is over-dedicated, takes no vacation.
12. Doctor uses stamp for bank signature in blind trust.

Below are listed some of the METHODS for embezzling:

1. Take cash payment from patient and not post charge.
2. Take cash payment, post ledger and misplace - prepare new ledger next visit.
3. Employee gives patient a fictitious receipt for payment that was made.
4. Employee gives doctor a sheaf of checks to sign, includes extra one.
5. Refund check made out to fictitious patient (employee had opened an account under fictitious name.)
6. Employee writes off account as uncollectible. Pockets cash payment.
7. Takes money from petty cash knowing that the fund is not carefully checked.
8. Take cash payment, record it on ledger card but not on the daysheet.
9. Purposely jumble office records to facilitate looting the practice.
10. Employee given power to sign checks; makes checks to non-existent suppliers.
11. On way to bank, employee keeps some of the cash and makes new deposit slip for less.
12. Aide pockets cash for services they renders (eg. replacement retainers) does not post services.
13. Aide does not bill patient whose payment has not been posted.
14. Substitute insurance check payment for cash taken.
Don't post insurance payment.
15. Remove from mail received any patient complaint about failure to credit payment.
16. Make rubber stamp of doctors signature. Use it to make extra paycheck for self.
17. Bill patient below the actual amount, then later, split the difference.
18. Raise the amount on checks after they have been approved and signed.
19. Employee Purposely pays a bill twice ... and then, pockets the resultant refund.
20. Aide forges doctor's signature to a check.

TELLTALE SIGNS

Be on the alert to quietly look into the following telltale signs that may indicate a potential embezzlement situation:

1. Deteriorating financial condition of employee
(spouse unemployed etc.)
2. Employee does not take scheduled vacations; or takes only a day or two off.
3. Employee constantly works overtime, takes work home, is never absent.
4. Aide shows emotional stress about family or personal financial problems.
5. Aide openly resents doctor's income, lifestyle, size of fees charged.
6. Employee abruptly changes spending pattern (new car, house, boat, etc.).
7. Aide carries large amounts of cash, loans money to others.
8. Chronic borrowing of money by employee.
9. Aide openly resents any overseeing of her work or new financial controls.
10. Aide often "forgets" to follow Procedure or has "no time" to post books.
11. Bookkeeper produces sloppy records, lots of erasures, jumbled data.
12. Employee hordes office financial responsibilities to herself.
13. Frequent patient complaints about billing errors.
14. Bank deposits do not equal practice receipts reflected in daysheets.
15. Reconciliation of ledger accounts totals do not match daysheet totals.
16. Petty cash fund contains many "IOU'S" from employees.
17. Bank statement does not reconcile with checkbook balance.
18. Without apparent explanation, accounts receivable increases .
19. Conversely, without apparent reason, collection ratio decreases.

20. Employee suddenly quits or disappears without explanation.
21. Aide displays traits of alcoholism, drug addiction, or gambling problems.

<u>SAFEGUARDS</u>

The odds are against being able to run an absolutely embezzlement proof orthodontic practice. However, here are preventative actions the doctor can initiate to at least minimize the risks, limit the loss, and deter it from happening:

1. Doctor make random spot check monthly by making private list of patient names and fees for those he treated that day. Compare it against daysheet and against ledger card postings. Investigate missing entries ... quietly.
2. Spot check by sending statement to bad debt patient whose account has been written off. If he has paid, your billing may result in indignant reply.
3. At random intervals have day's mail delivered to you unopened. Patient letters may prove to be unusually interesting.
4. Doctor should be the only one authorized to write off an account by signing his name, date and "Account Closed" across patient's ledger.
5. If on computer billing, no write offs permitted unless doctor gives signed notice to computer service bureau for each account to be written off. Then, obtain monthly writeoff list from bureau.
6. Put sign at reception window "Please retain your receipt for all payments made at the time of service."
7. Use duplicate receipt book. Give original receipt copy to patient who pays at time service is rendered.
8. Use numbered charge slips. At end of day check sequence of numbered charge slips to assure there are no unaccounted for voids in sequence numbers.

9. Establish policy that bank statement comes to doctor unopened. Compare cancelled checks with statement. See if any checks bounced and whether they have been redeposited. Assure that all signatures are authentic.
10. Doctor should not sign an account payable check without seeing an attached bill or invoice that has been stamped to show service or item was received.
11. Doctor should sign no refund check to patient unless he sees the patient account card it relates to.
12. Require petty cash slip identifying every disbursement. Replenish fund only with a check (not cash) made out to "Petty Cash".
13. Bond employees with a blanket bond. Let them know they are being bonded.
14. Check reference before you hire a new employee. Ask employee if they object to being bonded.
15. Pay employees decent salaries, give regular raises. Provide fringe benefits.
16. Each month check he totals of the ledger card balances versus the day sheets balances. They should equal. Investigate significant variances.
17. Make daily deposit slips and bank deposits to facilitate monthly reconciliation of income.
18. Have accountant or outside service conduct a surprise audit when bookkeeper is on vacation. Check ledgers, cancelled checks, write offs, etc.
19. Divide employees financial responsibilities ... e.g. one employee posts the daysheet, another checks the totals.
20. Buy or rent check imprinting machine ... perforates check totals. Do not sign any check which is not imprinted.
21. Once per month have clerk total all duplicate copies of charge slips. Check total against daysheets total to assure they balance.
22. Every quarter have accountant send form letter to random sample of accounts showing balance due per accountant's audit. If amount is correct, patient does nothing ... otherwise, ask patient to reply direct to accountant's office.

23. Require that payroll checks be justified by approved and signed time slips for any overtime payments.
24. Doctor should learn enough details about pegboard system, computers, bank deposits, accounts payable, etc., to let employees know he is interested in the financial affairs of the practice.
25. Require that each employee use their earned vacation time each year.
26. Rotate assistant jobs at unexpected intervals so that successor has chance to review predecessors records.
27. Doctor should not accept payment directly from patients, borrow cash from office receipts, or otherwise fail to assure that all financial transactions are accounted for.
28. Do not allow employee to sign check for doctor.
29. Notify bonding company, your accountant, and/or your consultant, if you suspect you are being embezzled. Also, check with your lawyer before you take legal action (if you are wrong you could be sued for slander).
30. Put cash and checks into office cashbox right away. Don't leave them sitting around.
31. If doctor takes cash from cashbox, leave a personal check in its place for the amount taken.
32. **Be above reproach in your conduct.**