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Safeguarding Your Practice Against Embezzlement

Author William J. Perry, CPA, CVA
Co-Author Cindy Smith, CFE

As the new year begins, it is time to make some resolutions. I made a resolution years ago which I am proud to say I have never broken. Do you want to know what it is? Well, I will tell you if you promise not to tell. Ok, here it is, I resolved to never make another new year's resolution. Why only make resolutions once a year? Did you not know you needed to lose a little weight before eating some of your children's Halloween candy? Did you not know you should not have spent as much as you did on the holidays before you started shopping? I could continue giving examples but you get the idea.

If I resolved to do things only once a year, my business would suffer. The perfect resolution would be one which takes minimal time and effort but has big rewards. One of these types of resolutions is to improve the internal controls of your office. This is a resolution which should be made today. The following includes some horror stories and suggestions to accomplish this resolution.

Jennifer was a happily married mother of two small boys. She was considered a devoted employee who was conscientious and organized. Dr. Smith hired her five years ago and had a great relationship her. What he did not know was Jennifer had been embezzling from him for the past three years. Jennifer was responsible for posting payments on patient accounts. However, instead of applying all of the payments to the outstanding balances, she zeroed the balances out by writing them off. She then took the checks and cash. Upon investigation, it was discovered Jennifer had stolen over \$150,000 from Dr. Smith. Jennifer did not have a gambling problem or a drug problem. She simply liked to decorate her home – with the doctor's money.

Statistics show 60% to 70% of all dental practices are victims of embezzlement. I frequently hear from doctors who think it cannot happen to them. They think their controls are foolproof, their employees are trustworthy, or their practices are too small. However, the majority of practices have weaknesses in their internal controls, and the embezzlers are experts at finding these weaknesses.

Even if your practice is small, there are steps you can take to reduce the risk of embezzlement occurring in your office. It is a frequent misconception that improving internal controls is difficult or time consuming. In reality, just a few small "tweaks" to the system can sometimes reduce the risk of embezzlement substantially, and it usually requires a minimal amount of time on the part of the doctor to get involved in overseeing the financial issues in the practice.



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There are some important changes most practices can make which will help reduce the risk of embezzlement. One of the most important changes you can make is to create a separation of duties. Multiple people should be involved in the financial procedures. In addition, it is important to compare the receipts on the daysheet to the bank deposit receipt every day, not once a year. One practice we worked with could have saved \$20,000 of theft if they had just looked at the daysheet and deposit receipts each day. They would have seen that the deposits were less than the receipts posted in the computer. You should compare the schedule and sign-in sheet to the daysheet every day to make sure the proper charges have been entered for all patients seen. This will help reduce the risk of an employee simply not entering a patient charge, and then pocketing the money. Management should approve all adjustments and write-offs (other than insurance “reasonable and customary” discounts). This person should be someone who is not involved in handling the accounts receivable functions. Also, personally review a detailed accounts receivable aging report every month and question any old balances. Employees need to know you are reviewing their work.

Have the bank statement mailed to your home or to your accountant’s office so employees cannot alter the contents. Do not have the same person that handles cash receipts or disbursements reconcile the bank account. All supporting documentation should be attached when signing checks. Review canceled checks each month (front and back) or check images included in the bank statement. We handled one embezzlement case where simply reviewing the canceled checks each month would have prevented a \$62,000 loss. The doctor would have seen his employee was changing the payees on the checks after he signed them. She simply erased the original payee (this is not as difficult as you might think), inserted her own name, and cashed the checks. Lastly, have a Certified Fraud Examiner (CFE) or a Certified Public Accountant (CPA), who has experience in internal controls and embezzlement investigations, review your processes and procedures. It is worth every penny.

It is important to let employees know that embezzlement will not be tolerated. Let them know you are reviewing their work. It only takes a couple of hours each week to stay on top of the financial practices within your office. It is a wise and worthwhile investment in your future and the future of your practice.