

Embezzlement

Dear Dianne,

I hired a new business assistant 14 months ago. Until yesterday, I thought she was the best employee I ever had. What happened? I discovered she has been embezzling from me.

Her primary method of embezzlement was skimming cash payments, but we've also discovered some discrepancies with checks. To date, I've been able to verify \$15,000 that has been stolen, but I'm sure the total is more.

As I stated, she has been an exemplary employee, otherwise. She has kept the schedule full, is never absent, dresses professionally, and is wonderful on the phone and with patients. I am devastated by her thievery and deceit.

Is there a protocol to follow? Who should I contact first — the police, an attorney, or my insurance company? Finally, how can I ensure that this will never happen to me again?

Victim of Embezzlement

Dear Victim,

I'm sorry to hear that a staff member has been embezzling money from your practice. Unfortunately, it is common. According to a report published by the Association of Certified Fraud Examiners, fraud costs the U.S. economy more than \$500 billion yearly — more than 10 times the cost of street crime alone. This type of white-collar crime has caused numerous companies to collapse financially, such as energy giant Enron. The problem could be much larger than we know because not all fraud and embezzlement is detected or reported.

Let's examine the mechanics of skimming, the most popular method of embezzlement. Here are a few skimming techniques:

- ❶ When a patient pays with cash, the visit is recorded as a \$0 charge, and the money is pocketed.
- ❷ The business assistant can give the patient a professional courtesy that you did not authorize, thereby understating your fee and pocketing the difference.
- ❸ The patient's account can be written off or placed in a collection account to hide the payment that has been stolen.
- ❹ The skimmer places deposits in a separate account at the bank that draws interest, then skims off the interest.
- ❺ The deposit can be falsified.
- ❻ Certain checks can be held back and actually cashed at the bank without the patient visit or transaction ever being recorded.
- ❼ The day sheet can be altered with adjustment entries to cover up the theft.
- ❽ Payments or charges can be reversed by using a negative sign or placing a number in parentheses.
- ❾ Partial-credit adjustments and backdating accounts can be used to cover theft.

Usually, embezzlers are clever in the techniques they employ. They typically possess much computer savvy and become masterful at hiding their deeds. Often, they appear to be loyal and hard-working (the first to arrive and the last to leave each day). They may even work occasional weekends to "catch up on office work." Sometimes they refuse to take vacations because they don't want others to



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discover their misdeeds.

There should be no question about whether to prosecute. Prosecution is your strongest weapon. Most business owners have insurance against employee theft, but failure to prosecute may prevent you from collecting indemnity insurance proceeds. Further, failure to prosecute sends a message that you ignore fraud and even excuse it. Your staff members may see this as weakness.

The protocol you should follow is this:

- ❶ Establish the paper trail and irrefutable evidence of embezzlement with your accountant and computer support.
- ❷ Contact your attorney, then contact the police.
- ❸ Terminate the staff member's employment in the presence of a witness.
- ❹ Contact your insurance company.

Here are some tips to prevent further embezzlement:

- ❶ Know your computer system thoroughly.
- ❷ Get a daily production/collection analysis.
- ❸ Be suspicious of \$0 charges.
- ❹ Never allow employees to sign checks.
- ❺ Always conduct background checks on anyone who will handle money.
- ❻ Always demand and check references for potential employees.
- ❼ Hire an independent accountant to audit your practice occasionally.
- ❽ Make sure your computer software has levels of security so that editing any transaction requires at least one other person's approval.

(Dr. Donald P. Lewis Jr., an oral surgeon, wrote a book about his experience with embezzlement called "Employee Embezzlement and Fraud in the Dental Office." It should be required reading for every dentist. To order it, write JdSG International, P.O. Box 35640, Monte Sereno, CA, 95030-0640, or e-mail info@jdsg.com.)

While the reasons requiring employee termination are many, my advice is to fire with impunity any staff member who does not thrive and grow or who becomes a negative force in the practice. Hiring a new staff member often can breathe new life into practice morale that has been wounded by a contrary, hateful, gossipy, or otherwise negative staff member.

Best wishes,
Dianne ■