



## Thieves You Trust - Dental Office Fraud and Internal Controls

Whether you are a young dentist purchasing a new practice, or a mature practitioner working towards retirement, establishing an appropriate system of internal controls is absolutely vital in protecting your practice cash flow. The practice is the foundation of your personal financial security, and therefore you must build a firewall around this valuable asset to protect against fraud and embezzlement.

### Embezzlement

Embezzlement is a crime of opportunity that differs from ordinary theft, as the embezzler is usually someone you trust - such as an employee. Dentists are typically vulnerable to fraud as they are working hard to grow their practice and busy carrying out the skills for which they were trained. They rely on competent staff to take control of the practice finances.

### How does it occur?

These are just a few examples of common embezzlement scenarios:

**Stealing petty cash.** The most common and simplest form of embezzlement.

**Forged endorsements.** Patient cheques may be accepted with the "payee" left blank, as the employee informs the patient that 'we have a stamp'. The cheque is then made out to the employee instead of the practice. Also, cheques may be stolen from the practice and written

to the order of the employee.

**Insurance fraud.** Here the employee may add false charges to an otherwise bona fide insurance claim. Or the employee might create an entirely fraudulent claim form for an existing patient. As the practice owner you are liable for any fraud committed by your staff.

**Pocketing cash from patients.** This method is one of the easiest to commit. This can be done by not making any record of the transaction. The cash is simply received but not recorded.

**Duplicate or phony vendor payments** - this is a common and a more creative form of embezzlement. The employee may have you sign a cheque to pay an invoice that has already been paid, forge an endorsement on the cheque and deposit to his or her own account. Also, the employee could create a phony supply company that he or she actually owns.

### What are the red flags?

The opportunity to commit fraud generally increases as an employee's responsibilities increase or when there are poor internal controls in place. The following are some key indicators of internal control problems to assist you in deciding whether or not to consult professional help regarding the existence of fraud:

- Patient complaints
- Excessive cash transactions
- Change in practice revenue
- Excessive write-offs/adjustments
- Unusual cheque endorsements
- Missing documents
- Photocopies of original documents
- Unusual deposit patterns

### How do I reduce the possibility of fraud?

The first step is to maintain security over your cash. A reliable system of internal controls should be implemented over the recording, maintenance and disbursement of cash. It should form part of your overall responsibility for the day-to-day operations of the practice. Active management of the practice is necessary to prevent dental office embezzlement.

### Smart hiring practices

Performing background checks on potential employees is a must. It is important to gather as much information as possible from former employers. Hire employees with strong moral values and integrity as they will never commit fraud even when faced with the opportunity to do so. Be aware of employees who are under pressure because of personal problems or huge debts.

### Daily operations

Take a hands-on approach to the operations of your practice. Lack of involvement enhances any opportunities an

*According to the American Dental Association, 40% of dental offices have been, or will be embezzled by an employee.*

# The Front Desk Review

employee might have. Create a climate of accountability by implementing a system of internal controls and then monitor those controls, so employees are aware you are ensuring the integrity of their work.

## What are internal controls?

Internal controls are the safety features established within your accounting system to help safeguard your practice assets. Some specific examples of policies and procedures that may help deter fraudulent practices in your office are outlined below.

**Segregation of duties.** The simplest, yet most effective control involves properly separating the financial tasks in the office. If possible, responsibility for all aspects of the cash management function should be assigned to different staff members. This is done to reduce the opportunity for one individual employee to commit and conceal errors or theft of assets. In a small practice, the segregation of duties may not be feasible.

**Authorization.** You should be the only person with cheque signing authority, and should only sign cheques after reviewing the attached invoice as evidence of legitimate disbursements.

## Monitoring.

- Bank statements and cancelled cheques should be sent to your home address and be reviewed prior to delivering to staff.
- All incoming mail received by the practice should be reviewed.
- Review of the monthly financial statements.
- Patient treatments performed according to the dental charts should be compared to the billing records on a daily basis.

**Reconciliations.** Monthly reconciliations of bank balances should be performed by staff and reviewed by you. This function should be carried out separately from those who receive payments, record transactions, or make deposits, as noted above. In particular, reconcile the cash received per billing records to the bank deposits.

**Safe-guarding assets.** Cheques received should be stamped 'For Deposit Only' to avoid unauthorized cashing of cheques by personnel. Deposits should be made on a daily basis to eliminate excess cash on hand.

The implementation of internal controls cannot guarantee that problems will not arise. However, being knowledgeable of the financial affairs of your practice will assist you in responding in a more effective and timely manner should such circumstances occur. Your indifference to the financial health of your practice may be just the invitation for an employee to take advantage of you.

## The "Front Desk Review"

### Whether you are...

- Looking to purchase a practice and require a critique of the current systems and shortcomings;
- Wanting to sell your practice and provide the potential purchaser with additional assurance that your present system is effective and efficient; or
- If you need to be reassured about the efficiency and strength of your practice management systems;

...our Front Desk Review can help you achieve your goals!

### Evaluate current systems

The first step is to identify operational

strengths and weaknesses in your management system. The analytical tools we have developed are specifically tailored to the requirements of the dental office. The main areas of review typically include billings, accounts receivable, cash receipts, disbursements, purchasing of supplies, and payroll. The review is designed to address your specific circumstances.

### Provide recommendations

After identifying any weaknesses, we can provide you with the recommendations and money-saving tips necessary to create a strong system of financial internal controls to:

- Protect your practice assets from theft, loss or misuse
- Enhance the reliability and accuracy of your accounting data; and
- Promote the operational efficiency of your practice

### Assist with the implementation

The objective is to implement our recommendations into your practice in a practical and cost-effective manner.

### Give you the tools for continued monitoring

In order to enhance your ability to monitor your practice and ensure financial security for years to come, we can provide you with a set of checklists, and essentially design for you a self-audit system that will allow you to assess whether your systems are continuing to operate properly.

### Contact us

Please call Lori Bray CA, or Manfred Purtzki at 1-888-668-0629 to find out more about our Front Desk Review. We can provide you with a proposal based on the scope of services to be provided. Upon acceptance of our proposal, we will put together a team to work on your account and schedule a visit to your practice.

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