

Embezzlement Monitoring Tool Kit

2025 Copyright DG Accounting Professionals LLC - All rights reserved.

Disclaimer: This document is for informational and educational purposes only and should not be construed as specific accounting, legal or tax advice. Certain information is based upon third party data and may become outdated or otherwise superseded without notice. Businesses & Individuals should speak with their qualified accounting professional based on his or her unique circumstances.



Dental Practice Fraud: How It Happens & How to Discourage It

According to an American Dental Association survey, one in three dental practices will experience some form of employee fraud or embezzlement during their lifetime. Dental office fraud occurs more often than it should, and is often the product of poor or non-existent internal office checks and balances, too much autonomy and authority given to one specific employee, lack of oversight by the practice owner, and failure to prescreen employees adequately.

Common Types of Employee Embezzlement: Skimming Cash

Petty cash or the occasional payment from a patient is often the first asset that a fraudulent employee targets to see if they can steal money without being detected. Fraudulent employees rationalize their misdeeds; i.e., "I am underpaid" or "the doctor makes more than enough money." \$10 turns into \$100, and that turns into thousands. It is not uncommon for a fraudster to increase the magnitude of their theft as time goes on. They get braver, bolder, and feel invincible.

Deleting or Altering Transactions

Once a fraudulent employee perfects their scheme to steal money from the practice, they need to cover their tracks in the patient management system (PMS). In other words, they need to show that a payment has been made in order to clear the accounts receivable. This can be done by adjusting or deleting activity in the PMS.

Modifying Patient Checks

Patients typically pay their portion of fees on the day of service, either by credit card or by check. One fraud scheme involves a fraudulent employee telling the patient to leave the "pay to the order of" section of a check blank because they have a stamp. The stamp would be made out to the fraudsters' own bank account using a "business-like name" that wouldn't raise any suspicions from the patient. Without internal checks and balances that reconcile the PMS activity to actual bank deposits, this scheme goes undetected.

Refunding Patient Credits

Offices typically estimate and collect the patient's portion of fees on the day of service and when the EOB clears; it is not uncommon for patients to have nominal credits in their account. This fraud scheme involves a fraudulent employee processing these nominal patient credits as refunds to their own credit card. Patients may not be aware that they have a nominal credit and never inquire about it. Without oversight, no one is the wiser and the fraudulent employee has successfully stolen money from the practice.

Unauthorized Expenditures

Offices commonly give a key employee (office manager) a business credit card to pay practice expenses as they arise (dental supplies, lab bills, utilities, etc.). Some offices even give that employee signature authority on the business checking account. Without oversight or protocols that are designed to monitor the practice's financial affairs, a fraudulent employee can pay personal expenses and simply post those transactions like any other legitimate business expense.

Best Practices to Help Monitor & Discourage Employee Fraud

- Monitor your detailed production and collection reports; compare posted services to the schedule to ensure billing information has been entered correctly
- Reconcile payments posted in your patient management system to payments posted to your bank and QuickBooks
- Routinely review your Adjustments Report and Deleted Services Report, and ask questions about transactions you may not recall or understand
- Routinely review patient credits that your staff processes
- Outsourcing your accounting duties will help monitor and discourage employee fraud by having another set of eyes on the "numbers" (accounting) side of the practice

Fraud Exposure Checklist

| (Note: each "no" answer identifies a fraud risk) | Yes | No |
|---|-----|----|
| Are two or more people responsible for the accounting duties? | | |
| Are monthly financial statements prepared that show the month and year-to-date amounts along with a comparison to the prior month and year-to-date amounts? | | |
| Does the owner review financial statements each month? | | |
| Are copies of voided transactions & adjustments in the patient management system presented to the owner for review and approval? | | |
| Does the company have check images on bank account statements or available online? | | |
| Does the company sync online banking with QuickBooks Online? | | |
| Does income in the patient management system match the bank deposit reports? | | |
| Does the owner review daily production sheets & compare to scheduling? (Routing Sheet activity to the Day Sheet) | | |
| Does the company lock the credit card terminal for patient refunds and only issue checks? | | |
| Do performance and overhead ratios match industry benchmarks? | | |
| Does the company prevent the use of a check signature stamp? | | |
| Are bank check stocks and signature stamps safely secured? | | |
| Are cash and checks deposited daily? | | |
| Does owner have an accountant monitor and process payroll data? | | |
| Is there password restriction and security for all computer systems and programs? | | |
| Are unique passwords given to each employee and changed at least every 6 months? | | |
| Are all systems backed up on a daily basis and is backup stored off-site? | | |
| Is an annual inventory taken of office furniture, equipment, and dental supplies? | | |
| Are prescription scripts locked up? | | |
| Is a verification of education and work history made before hiring all employees? | | |
| Are credit and criminal history screenings made before hiring all employees? | | |
| Does the company conduct reference checks? | | |
| Does all staff appear to be living within their means based on what is believed to be their household income? | | |
| Total: | | |

Key Takeaways:

- Certain accounting/bookkeeping functions are designed to cross reference each other for accuracy. If the same person is responsible for multiple duties, the natural check and balance of the system is removed.
- Trust is not the issue: verifying accounting transactions is. Giving a single person unquestioned authority over finances is not a wise business practice.

| "No" Answers | Fraud Exposure Risk |
|--------------|---------------------|
| 1 to 5 | Low |
| 6 to 10 | Medium |
| 11+ | High |

EMPLOYEE FRAUD WARNING LETTER

Many business people are not aware that the scope of a typical accounting engagement does not include specific services relating to the disclosure of employee fraud.

How are you managing your business finances? When was the last time you considered your exposure to employee embezzlement and theft? Many business owners are discovering that their assets are not as well protected as they thought. This is especially true in small business environments where a single employee manages all the finances. Often there are no "checks and balances" to verify that transactions are accurate.

There are typically two major factors that can cause an employee who has otherwise been honest and trustworthy to suddenly become involved in embezzlement or theft. The first is addiction, including gambling or involvement with drugs by either the employee or one of the employee's loved ones. The second is pressure created by an economic downturn.

Experience has shown that when a significant embezzlement or theft is discovered, it is usually a situation where the employee is a trusted person who has been with the company for an extended period of time. The employee has an exemplary work record, is dedicated, and is considered to be a "company person." Additionally, if an employee had not had the implicit trust of the employer, the embezzlement or theft might not have occurred. The breakdown in internal control creates a situation where the dishonest employee can manipulate the system.

Typically, the employer is extremely busy and does not have time to get involved in the accounting department. Additionally, smaller companies may not have the staffing and/or financial expertise in place to ensure a strong system of internal control procedures. When you combine the previous factors with the employer's feeling of total trust in the employee, the situation can prove to be very dangerous.

EMPLOYEE FRAUD WARNING LETTER (Cont.)

When proper, consistent procedures are not in place, employees can learn to manipulate the accounting system to their benefit. Whether they take money from the company or their mistakes are undiscovered, the end result can greatly impact your company's management decisions, financial reports, and tax filings.

Unfortunately, once your financial records have been altered, discovering problems is extremely difficult. Generally, the scope of work performed in standard bookkeeping or CPA engagements is not designed to uncover internal problems such as embezzlement.

Therefore, the best way to safeguard your company's assets is to recognize and improve weaknesses in your internal procedures. The following business practices can help you minimize potential internal control problems:

Related duties should be assigned to different people.

Certain accounting functions are designed to cross-reference each other for accuracy and, when possible, should be performed by different personnel. Cross-referenced accounting functions include writing/signing checks, ordering/paying/receiving materials, handling cash/recording cash, etc. Procedures to compare and reconcile cross-referenced functions can reveal inconsistencies in your records in a timely manner.

Reconcile and scrutinize your bank statements and credit card statements every month.

A bank statement can tell you a lot about your business if you review the information in a timely manner. Insist that bank reconciliations are completed within 10 days of receiving the monthly bank statement and submitted to you for your review. Examine checks and endorsements; proof deposits to sales reports and accounts receivable records; track transactions between accounts; compare payroll checks with employee records; review credit card transactions. If something seems odd, ask questions. This lets your employee know that you are monitoring transactions closely.

EMPLOYEE FRAUD WARNING LETTER (Cont.)

Always ask for proof before you sign a check or authorize a transaction.

When you insist on reviewing original documentation, your employees become more accurate and communicate their needs more clearly. Never sign blank checks. You should also verify the names of your vendors and your employees occasionally. And, remember to cancel supporting materials after signing a check.

Lock and protect your valuables.

Keep blank checks and signature stamps secured, and deposit cash and checks daily. It's also important to secure fidelity bonds and insurance for all accounting and key personnel.

Monitor payroll.

At least quarterly, examine your payroll reports to make sure there aren't any "ghost employees" and everyone is getting paid the correct salary. If you are receiving IRS notices for delinquent tax deposits, that is a typical sign of a potential embezzlement problem.

Know your employees and examine behavior changes.

Always verify employee references before hiring. Many white-collar crimes go unreported and continue to be repeated by habitually dishonest employees. Watch for trouble signs: possible substance abuse, change in lifestyle, living beyond means, possessiveness of work, etc.

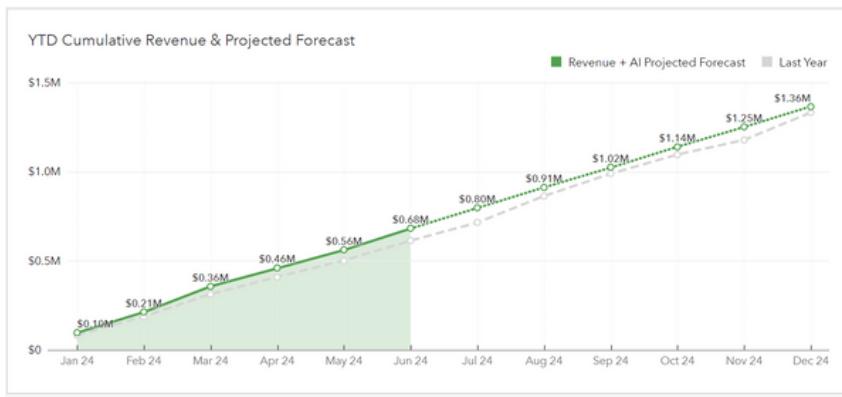
These internal controls can help to reveal many discrepancies, as well as recognize the excellent efforts of your staff.

If you have concerns with your internal controls or lack of controls and/or want to learn more about what you can do to improve controls, we can provide you with additional self-help materials that will provide useful information, assessment tools, and general guidelines for improving your internal controls.

We are also available to help you assess your current situation and help you develop and implement internal controls to address the areas of concern you may have identified.

Please contact us if you have any questions or would like further assistance.

This document provides business, financial planning, and tax information to clients and friends of our firm. None of this general information should be acted upon without first determining its application to your specific situation.



Who We Are



Brian F. Bray, CPA
Co-Managing Partner
Senior Client Advisor



Maggie M. Boyle, CPA
Co-Managing Partner
Senior Client Advisor



Kevin J. Bray
Partner
Client Advisor

We exist to serve our clients - Our Mission is to help improve the financial success of private practice dentistry - By helping the next generation of dentists learn how to run a successful dental practice.



Dental Accounting Group

THE NEW STANDARD OF CARE FOR YOUR DENTAL PRACTICE



PUGET SOUND BUSINESS JOURNAL



WASHINGTON'S
BEST WORKPLACES



What Do Our Clients Say?



Dental Accounting Group has been an extremely helpful part of my team! They have provided valuable expertise in helping me acquire two dental practices over the past few years and setting me up for success as I have consolidated these practices. From accounting and tax strategy to bookkeeping, they have been an extremely helpful resource on my business team. Thanks Brian, Kevin, and Caitlin and the whole group!

Dr. Matthew Carlson, Mount Vernon Root Canal Specialists

"If you are searching for a professional, top-notch accounting firm, then look no further! Brian, Kevin and their staff have years of experience in the dental field and understand the specific needs of dental practices in today's challenging environment... It's assuring to know that I have them as a valuable partner providing me with great advice, as I focus on growing my practice..."

Dr. Asha Madhavan, Sammamish Village Family Dentistry



"DAG has gone above and beyond in helping me organize my small business accounting and tax needs. They are always responsive and willing to answer any question big or small... making time to explain all the ins and outs of my complicated tax return! Thank you ladies for all your help this year."

Dr. Kristen Morris, Mukilteo Dental Center

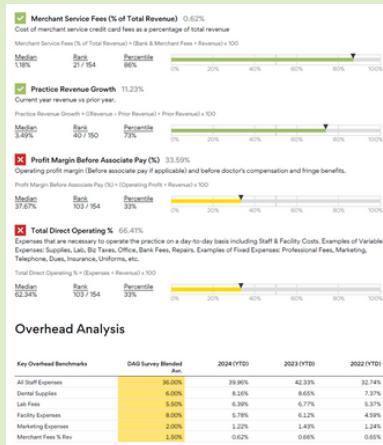
"The team at Dental Accounting Pros has extensive experience working with dentists. I'm able to spend more time focused on patient care because I don't have to worry about reconciling my accounts every month. They handle all of the details and are always available to answer questions. I recommend their bookkeeping service to anyone who wants to free up time to spend growing their dental practice."

Dr. Ryan Chiang, Bellevue Dental Arts





Ask Us About Our New Practice Analysis Report



✓ Year-to-Date Revenue Growth Target
Practice Revenue Growth 11.23% (This year target 3%)
Great! Positive trend upwards. You are on track to exceed your yearly revenue growth goal!



Schedule a Meeting Today!
dentalaccountingpros.com/contact

