



## Accounting Controls Can Prevent Dishonest Behavior

By TDIC Risk Management Staff

Embezzlement is typically defined as the theft of money or property by a person trusted with those assets. It usually occurs in employment settings, and small businesses suffer more losses from fraud than larger organizations, according to the Association of Certified Fraud Examiners.

Analysts with The Dentists Insurance Company say dentists may inadvertently put their practices at risk for fraud by trusting a single employee with sole financial responsibility or by not reviewing accounts payable and receivable. However, this vulnerability can be reduced through awareness of “red flag” behaviors and a few key accounting protections.

Fraudulent activity can happen in a number of ways, and TDIC case studies show instances of employees deleting appointment and ledger entries, endorsing patient checks to personal accounts, forging payroll checks, modifying payroll, misappropriating a credit card and using a signature stamp without authorization.

Jennifer Duggan, a Northern California attorney specializing in business and employment law, says there are also more sophisticated schemes in which employees fabricate fictitious vendors, create nonexistent employees, receive kickbacks from patients or from vendors for awarding company contracts or actually coerce subordinate employees to carry out theft.

“Sometimes employees forge signatures on checks and sometimes the employees are authorized signatories,” said Duggan.

Duggan notes that the thief is more often than not a highly trusted employee.

“The prototypical thief is a long-time employee who is extremely familiar with the financial aspects of your business. He or she interacts with clients and vendors, and may handle or process accounts receivable, accounts payable or banking functions for the practice,” she said. The employee is viewed within the practice as a loyal, trusted, giving individual and would be last on a list of people you might suspect.

This creates a delicate situation for practice owners, but experts say basic awareness of red-flag behavior keeps employers from having to be unnecessarily suspicious. Red flags include an “ever-present” employee who comes in early or stays to close up after everyone else has gone home or someone who regularly refuses to take a vacation.

Illicit activity may surface if the employee is required to be away from work for a week or two and is not able to cover up the trail of fraud. Other things to be aware of are financially frustrated employees who are always short on cash or territorial employees who refuse to cross-train coworkers. Analysts say one red flag is not typically cause for alarm, but a combination of these behaviors warrants concern.

TDIC analysts say practice owners lose more than money when fraud shatters the “family feeling” and trust in the office. “When an employee steals from the practice owner, the owner feels betrayed and can have a hard time recovering from that,” notes a senior analyst.

By implementing accounting controls, small business owners can significantly reduce the chances of becoming a victim of employee theft, Duggan says.

“Simply reviewing your bookkeeping structure and implementing accounting measures will greatly reduce the probabilities of falling victim to employee theft,” she said. “Instituting controls also communicates to employees that you are paying attention and discourages even the thought of stealing.”

Accounting controls for dental practice owners include:

- Avoiding single-person control of all of the practice’s financial dealings. Separating tasks, such as opening incoming mail and data entry for deposit and receivable information, minimizes the possibility of an employee manipulating account information.
- Separating job functions of reviewing monthly bank statements and preparing monthly bank reconciliations. If you have multiple authorized signors, separating the job functions of preparing the checks and signing the checks reduces risk. If you use online banking, separating the job functions of entering payments and reconciling monthly activity is key.
- Requesting that the bank mail statements to your home or personal email address and reviewing statements regularly for unusual accounts payable names or other inconsistencies.
- Securing company checks in a location accessible only to authorized employees.
- Requiring supporting documentation (a vendor invoice or credit card statement, for example) for every check you sign and reviewing supporting documentation to ensure the expenditure is justified.
- Running an accounts payable history to review invoice numbers and amounts.

- Providing specific instructions or guidelines to your bank including a list of your approved vendors and authorized signors.
- Watching for an increase in patient refunds, adjustments or bad-debt write-offs. An unusual number of accounts turned over to a collection agency and a decline in the gross income or profitability of the practice is suspicious. Discrepancies between accounts receivable records and patient statements should also be suspect.
- Noticing any increase in patient complaints regarding their accounts, which could indicate fraudulent activity or a need to develop a policy clarifying account procedures with patients and staff. Reviewing and responding to patients' concerns personally is recommended.

If you discover facts indicating that you are the victim of employee fraud, call TDIC immediately. Trained analysts will discuss the situation with you, including documentation of the fraud. Practice owners with evidence of fraud should also be prepared to call the police. TDIC offers identity theft recovery for the individual dentist under its Professional Liability policy. The business owners' property policy covers employee dishonesty. In order for coverage to be effective, practice owners must file a police report and submit it to the claims department.

**TDIC's Risk Management Advice Line can be reached at 800.733.0634.**

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