

Vaccinating Against the Embezzlement Virus

This pearl provides a painless vaccine for what seems to be an epidemic: embezzlement of funds in orthodontic practices, even with computerized financial control. It is difficult to determine the full extent of embezzling, since the embarrassed embezzled, prefer not to talk about it. However, a good guess would be that many practices may be unaware that they were/are being embezzled. The embezzled funds can vary from a few hundred dollars to hundreds of thousands of dollars embezzled over many years.

Embezzled practices (doctors) are blind sighted by the following beliefs:

- ☐ “I trust my financial person implicitly!” All embezzlers are always trusted employees and some are even significant others or wives.
- ☐ “I don't want it to look like I don't trust my team members!” In general, the preventive approach is for the good of the team members. If not vaccinated and something accidentally goes wrong, and it will, the implication of embezzlement may hang over an innocent employee.
- ☐ “I hate getting involved with financial Matters!” Great; then you'll never know how much you lost. It is much cheaper to instill the controls than it is to be embezzled.
- ☐ “I have few employees and only one person who handles *all* financial matters!” Divide cash control and you'll save potential loss.

Computers not only provide opportunity for creative embezzlers, they also provide safeguards against it if they are properly used. There are two types of embezzlement—collections and payments. When there is a transfer of money from your patients to you (collections) or from you to your creditors (payments) there is an opportunity for embezzlement.

Embezzler **Strategies** and **Counter-Strategies**

While embezzlement is a simple interruption of the flow of money, the cover up strategies of the embezzler can be elaborate. Embezzlement strategies and the counter-strategies you need to employ are discussed below.

Strategy-1: Emily is the *only* team member who handles all the payments. Each month, Mrs. Jones gives Emily \$150 in cash, Emily gives her a phony paper receipt, puts the money in her pocket, neglects to post the payment, and makes sure that Mrs. Jones *never* gets a statement.

Counter Strategy-1: For this to work, Emily must never get sick, never take vacations, and make sure that nobody ever messes with her bookkeeping. You can foil this strategy with a second person handling the payments or statements. If not possible, you can do a Six-month balance check by having your accountant personally run statements on all of your patients, asking them to call his accounting office if there are any discrepancies between their balances. Also, make sure that Emily takes her vacations.

Strategy #2: Emily posts the \$150 cash as a Credit Adjustment to the patient's account and not a payment. The patient does not complain, the doctor's deposits vs. payments match, and Emily has the cash. In practices where the posting is done by the receptionist, there can be a lot more mistakes and thus, more monthly adjustments to deal with, making the phony Credit Adjustments harder to find if the computer program is not coded correctly by the bookkeeper.

Counter Strategy-2: Most computer programs have an adjustment log, or a way to list all adjustments. The doctor must require that Emily explain *all* adjustments, in writing, and then spot-check them.

Strategy-3: Emily posts *check* payments as a Credit Adjustment, preventing exposure by statements. This is much more lucrative than waiting for cash. The bookkeeper (the doctor's wife) created a secret bank account in the doctor's name that she could sign on and deposited *checks* into for herself. She befriended a banker to create the account and they fled to Europe together with about \$600,000. Another embezzlement trick is to say that the check was post dated so that it wouldn't be missed today, and then eventually deposit it in the secret account.

Counter Strategy-3: If possible, separate the duties as indicated below, and then, each month, print reports showing how much was actually posted, and then compare it to the *bank deposit slip receipts* (not the bookkeeper's deposit slip). Also, have your accountant do your monthly bank reconciliation.

1. The receptionist opens the mail, logs the in-mail payments, collects and logs it on the "Daily Financial Control Envelope" (see Appendix-A). At the end of the day, she logs the Total AMOUNT collected on the "Daily Cash Control LOG" (see Appendix-B), and gives it all to the bookkeeper.
2. The bookkeeper checks that all that is in the envelope is correct, posts all payments, makes up the deposit slip and logs it in on the Daily Cash Control Log. She posts the direct deposit and automatic credit card payments and adds them to the "Daily Financial Control" envelope totals.
3. The receptionist checks her log entries (Appendix-B) against the bookkeeper's bank deposit slip to make sure they match.

Strategy #4: Cover up the stolen cash with an insurance payment—this one is creative. In many systems, insurance owed is not separated from the patient portion and insurance checks are just posted whenever they show up. In others, the insurance and patient portions are handled in completely separate accounts. In either case the key is that the patient is not aware of the insurance balance and payments. Today Emily gets a \$500 check from an insurance company, which she uses to cover a \$500 cash payment. She posts the insurance payments to the accounts as cash, but not the cash payment. She pockets the cash and deposits the insurance check. Everything is in balance and no one notices that the insurance account is behind because Emily doesn't tell them.

Counter Strategy-4: Again, separation of financial duties, would have stopped this one, if you also control your insurance payments, knowing: 1) what is due this month; 2) what is paid this month; and, 3) why they don't match. It also helps to set up the insurance accounts in such a manner as to create monthly past due listing when they are not paid.

Strategy #5: As the doctor closes the loopholes in the system, Emily is left with fewer options, but this is a good one! Johnny Smith loses his retainer and brings in \$150 cash to pay for it. Emily just pockets the money, neglects to post the \$150 charge, leaving no trail.

Counter Strategy-5: Have the doctor use a Charge Control Book (see Appendix-C) to initiate the charges in the clinic area, and have someone other than the receptionist/bookkeeper check the Charge Control Book against the miscellaneous charges posted to make sure they are accounted for. Or post the charge on the computer in the clinic if available.

Strategy #6: When all the receivables loop holes are closed, Emily resorts to the payables, by creating a fictitious business called ABC Orthodontic Supplies. She then buys clerical or communications supplies from herself every so often, and if she doesn't get too greedy, she can get away with it for years.

Counter strategy-6: Be aware of all of your vendors, match all invoices and statements, and have the doctor sign all of the checks after viewing the invoices.

Strategy #7: Emily, realizing that the practice pays most of its bills through credit cards (which could be hundreds of thousands of dollars per year), has the credit card company send her another card for that

account and uses it to pay for her as a vendor, like with the checks fraud in 6 above. Unless the doctor checks over the credit card statement, he/she will never know

Counter strategy-7: Get receipts for all purchases and check your credit card statement each month. Question all charges without receipts and check for consistent vendors you are not sure of.

Strategy #8: Emily and her children are covered by her spouse's orthodontic insurance, but get free treatment from the practice. Thus, Emily submits her insurance claims and collects thousands of dollars that should have gone to the practice without the doctor even knowing it.

Counter strategy-8: This is very hard to detect, even with computer controlled insurance programs. If you do electronic insurance processing it might be harder to pull off—but the embezzler is getting smarter and may figure a way around it.

IN CONCLUSION

Yes, you could employ some of the counter strategies, but why not just implement them all for an embezzlement-proof practice in the first place? When properly implemented, it will assure you that the rest of your team members are free of blame for the embezzling of another.

You must also BOND all the team members who handle money in your practice. Better yet, bond everybody in the practice; it's cheap in the long run. Therefore, when there is a loss, whether intentional or not, the practice will not suffer the financial loss, which the bonding company must cover. It is then the job of the bonding company to find any guilty party to make restitution. Bonding can be done through your practice insurance or other means—ask your accountant or insurance agent. The cost is minimal and the personal satisfaction of knowing you are covered is maximal.

The average embezzlement ranges from thousands to tens of thousands of dollars—the cost of its prevention is minimal!

APPENDIX-A**Daily Financial Control Envelope for Daily Payments Received by the Receptionist**

Name of Doctor: _____, Date: _____

Office: _____, Day of Week: Mon ☐ Tue ☐ Wed ☐ Thu ☐ Fri ☐ Sat ☐

Name of Person Preparing Envelope: _____

Signature of person preparing envelope: _____

Number of Financial Arrangements enclosed (from TC): _____

Number of Miscellaneous Charge Control Slips enclosed: _____

_____ enclosed: _____

_____ enclosed: _____

Inclusive **Cash Receipt Numbers**: from _____ to _____ **OK** ☐Total **NUMBER** of all checks enclosed Including Insurance Checks): _____ **OK** ☐**In Person Credit Card Payment by Patients**

Patient's Name	Account # or TYPE (Visa, etc.)	Amount Paid
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____
_____	_____	\$ _____

Total *AMOUNT* of all **Credit Card Payments**: \$ _____ **OK** ☐Total *AMOUNT* of all **CHECKS** enclosed: \$ _____ **OK** ☐Total *AMOUNT* of all **CASH** enclosed: \$ _____ **OK** ☐**Total AMOUNT** enclosed: \$ _____ **OK** ☐Bookkeeper's Signature: _____ Date: _____ that **OK**'s were checked.Total *AMOUNT* of **Direct Deposits*** today: \$ _____ Total Number: _____Total *AMOUNT* of **Automatic Credit Card*** today: \$ _____ Total Number: _____**Total Collections Today** (include **Total AMOUNT**): \$ _____* The daily **Direct Deposit** and **Automatic Credit Card** payments are added by the bookkeeper.

APPENDIX-B

Daily Cash Control Log

D A Y of mo	DATE of Payment (use same date for Posting)	In-Hand Credit Card Payments (listed on Daily Financial Control Envelope)	\$ Amount of CASH	\$ Amount of Checks	Total Amount of INCOME	Total Amount POSTED to Patient Accounts	Amount DEPOSITED in Bank (on bank receipt)	Notes on <i>differences</i> when columns don't proof out. (post-dated checks?)
		A	B	C	D=A+B+C	E=D	F=B+C	👉 Column Proofs
1	01-04-03	\$127.00	\$465.00	\$4,678.45	\$5,270.45	\$5,270.45	\$5,270.45	
2								
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TOTALS								👉 Do Column Proofs

APPENDIX-C

2-Part NCR Daily CHARGE Control Book

<p>Date: _____ Due Date: _____</p> <p>Pt's Name: _____</p> <p>Guarantor: _____</p> <p>Notes: _____</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Service Provided</th> <th style="text-align: left;">CHARGE</th> </tr> </thead> <tbody> <tr><td>Special Evaluation:</td><td></td></tr> <tr><td>Diagnostic Records:</td><td></td></tr> <tr><td>Panographic X-Ray</td><td></td></tr> <tr><td>Digital Photos:</td><td></td></tr> <tr><td>New Retainer:</td><td></td></tr> <tr><td>Retainer Repair:</td><td></td></tr> <tr><td> </td><td></td></tr> <tr><td> </td><td></td></tr> <tr> <td style="text-align: right;">TOTAL</td> <td>\$</td> </tr> </tbody> </table> <p>Initials: _____ Pay Receptionist <input type="checkbox"/> Bill for Charge <input type="checkbox"/></p>	Service Provided	CHARGE	Special Evaluation:		Diagnostic Records:		Panographic X-Ray		Digital Photos:		New Retainer:		Retainer Repair:						TOTAL	\$	<p>Date: _____ Due Date: _____</p> <p>Pt's Name: _____</p> <p>Guarantor: _____</p> <p>Notes: _____</p> <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr> <th style="text-align: left;">Service Provided</th> <th style="text-align: left;">CHARGE</th> </tr> </thead> <tbody> <tr><td>Special Evaluation:</td><td></td></tr> <tr><td>Diagnostic Records:</td><td></td></tr> <tr><td>Panographic X-Ray</td><td></td></tr> <tr><td>Digital Photos:</td><td></td></tr> <tr><td>New Retainer:</td><td></td></tr> <tr><td>Retainer Repair:</td><td></td></tr> <tr><td> </td><td></td></tr> <tr><td> </td><td></td></tr> <tr> <td style="text-align: right;">TOTAL</td> <td>\$</td> </tr> </tbody> </table> <p>Initials: _____ Pay Receptionist <input type="checkbox"/> Bill for Charge <input type="checkbox"/></p>	Service Provided	CHARGE	Special Evaluation:		Diagnostic Records:		Panographic X-Ray		Digital Photos:		New Retainer:		Retainer Repair:						TOTAL	\$
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