

# **Making Embezzlement Obsolete**

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## **Dental Industry**

In 1996 embezzlement occurred in 35% of dental practices. In 201, that figure has doubled to 82%.

The average embezzlement from a dental office is \$105,000.00, With cases as high as \$750,000.00 in 3 years.

## **Statistics**

US companies annually lose \$250 billion due to employee theft<sup>1</sup>. 2010 Medicaid and Medicare lost \$60-90 billion from fraud - estimated by the Attorney General= A 2007 study shows 79 of workers admit stealing from their employers.

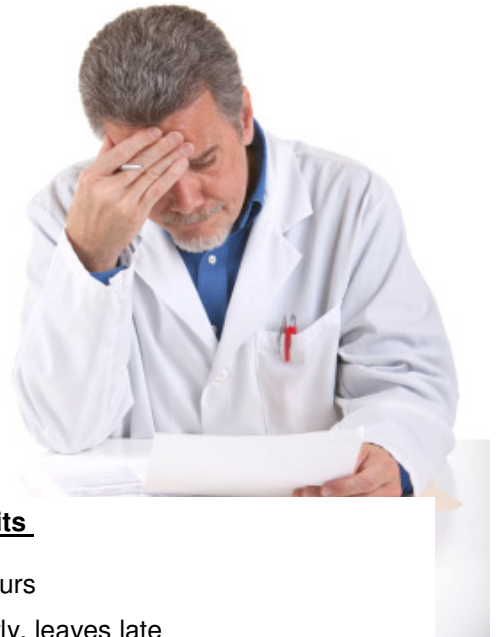
1- Dept. of Commerce 2011

2- Merrill Matthews, Forbes. Medicare and Medicaid Fraud Is Costing Taxpayers Billions. 5/21/12.

3 - William HE. Investigating White collar crime: Embezzlement and Financial Fraud, Springfield, IL., Charles Thorton Publisher, 2007:38

## **Why Does It Occur**

- Greed - 65%, Revenge - 27%, Necessity - 8%
- I am underpaid and I am only taking what I deserve .
- Everybody does it, besides, they can write it off.
- The doctor makes a lot of money and I deserve some of it.
- The doctor angered me and I got back at them.



## **Common Characteristics of Embezzlers**

### **Wonderful Qualities**

- Very loyal
- Often long term employee
- Joy to work with
- Intelligent - have common sense
- Able to think quick on their feet.
- Able to rationalize

### **Work Habits**

- Work long hours
- Comes in early, leaves late
- Never takes vacations
- Works uncompensated overtime
- Efficient
- Will not delegate - no one meets standards.

**EMBEZZLEMENT**



## Example 1 - Credit Balance

- Established practice that converted computer systems. All patients' balances (including credits) were entered into the computer as of October 1st listed as "balance forward".
- The office manager called and offered patients a 50% discount if the patient paid their balance in full with cash.
- When patients came into the office to pay their balance, she back dated a "Credit Balance Forward" for the amount of the patient's balance. The office manager pocketed the cash. The patient did not receive a statement since their balance was \$0.00.

## Example 2 - Deposit Dater

- When patients paid in cash, a paper receipt was generated for the patient.
- The staff member entered the payment into the computer with a date for the payment 5 months prior as a check payment.
- The back dated deposit did not show on today's bank deposit slip.
- The employee pocketed the cash.



- Embezzlement occurred from a long term employee who was with the Dr. since she opened the practice.
- Many of the patients were long term and friends of the staff member.
- She felt the Dr. made enough money and sorry for elderly patients.
- The employee adjusted their accounts using an "Adjustment" or "Write Off" code after the insurance paid instead of collecting that amount from the patient. (**NOTE:** This occurs in almost every practice that only collects any portion due by the patient after insurance pays. Often staff does not want to ask the patient to pay more if their estimate given to the patient is wrong and the patient has a remaining balance. Balances may also be reduced by professional courtesies, cash discounts, senior discounts or uncollectable when the situation doesn't apply. )

## Example 4 - "Up Coder"

- Before the doctor went on vacation she came into the office when it was closed.
- The doctor found a EOB for endo, but doesn't perform molar endo on patients.
- The insurance company verified on the paper claim forms submitted molar endos were submitted and paid.
- In the computer the insurance payments were applied to a fake patient, leaving the fake patient with a credit balance.
- When a patient paid cash, she applied the credit to the cash paying patient's account with a code for wrong patient payment.
- Some of the insurance payments were applied to friends and family with balances.
- 6 accounts lead to 128 patients with a total of \$175,000.00 in embezzlement,
- She was prosecuted for theft, insurance fraud and mail fraud.

### Example 5 - "Down Coder"

- Front desk staff would ask the patient how they were paying for today's services.
- For cash patients, she would quote prices for higher procedures (surgical extractions or perio maintenance).
- In the computer, she charged the patients lower procedures for services (simple extractions or adult prophys).
- Pocketed the cash difference between the two sets of procedures.



### Example 6 - Time Clock

- Oral Surgeon went on vacation from 1/2/12 - 1/6/12.
- Gave the front desk employee permission to come in and work.
- Employee clocked in for 32 hours (4 full days).
- The doctor received a phone call from a family friend who called the office several times and no one answered.
  - The doctor called the office and got the answering machine. He left a message and the staff person called him back 3 hours later.
  - When she talked to the doctor she had an excuse she was filing charts in the storage and didn't hear the phone.
  - The doctor checked the alarm company and computer software and found the employee was only in the office 1:22 minutes total.
  - The employee changed the time on the computers and clocked out.

### Example 7 - Collection Accounts

- Office manager's friend came into the office.
- She told the patient they didn't have to pay and the office would collect after the insurance paid.
- After the insurance paid, she would write off the remaining balance stating the account was turned over to a collection agency.
- The account was never sent to the collection agency.
  - The patient's name and address were changed with fictitious information.
  - A new account opened for the patient.
  - This repeated 8 times for the same patient.



### Examples 8a & 8b - Supplies

8a)

- Doctor told the staff that premiums for medical insurance were being cut.
- Within 2 weeks, the office couldn't find 2 hand pieces and 3 Sonicare toothbrushes were not in inventory.
- The staff member placed the hand pieces and Sonicare toothbrushes on Ebay to sell.

- Ebay currently has over 30,000 listings for dental hand pieces and 2,000 for Sonicare.

8b)

- Oral surgeon kept medications onsite.
- A staff member went to retrieve Vicodin to give to a patient at the doctor's request.
- She noticed that several of the pills did not look correct.
- Another employee took the Vicodin and replaced the missing drugs with Tylenol.
- The employee stole 78 pills for her boyfriend and several bottles of Propofol.



### Example 9 - Back Dater

- When a patient paid cash, the payment was not entered into the computer.
- After the end of the day, the employee would print out the end of the day reports and give them to the doctor.
- After the reports were printed, the employee would enter the payment into the system. Since the reports were closed for the day, she kept the cash.

### Example 10 - Tax Return

- The office manager was responsible for creating payroll checks and paying the payroll taxes in QuickBooks.
- Every paycheck she would have the office pay an additional \$1,500 in federal withholding.
- At the end of the each quarter and year end, she manipulated her W-2 to include the excess and federal withholding.
- Her tax refund was an additional \$40,000.

### Example 11 - Checks

- The office manager paid the bills for the doctor. He would prepare the checks and have the doctor sign them.
- During the month he would have the doctor sign two checks to the credit card. He told him they paid 1/2 on the 1st and 1/2 on the 15th.
- The second check the doctor signed, he would pay his own credit card.
  - After several months, this also occurred with the telephone and utility bills.
  - He would pay the bill the 1st month. On the 2nd month he would use the check for his personal bill. On the 3rd month he would pay the overdue and current amount.
  - This escalated to writing checks to himself and stamping the doctor's signature. The entries in QuickBooks were changed.
  - The employee reconciled the checkbook with the bank statement.



## Example 12 - Credit Card Refund

- The patient had a legitimate credit balance with the office.
- The office manager issued the refund on the patient's account.
- Instead of giving the patient their refund, the office manager issued a refund on their personal credit card.
  - The patients' charges were either deleted out of the computer system or adjustments were made to reduce their balance to \$0.00.
  - From the fake corporation she would pay herself and husband.
  - It was discovered when the 1099 form from Delta Dental was Y2 of what was deposited into the doctor's bank account. Total loss was \$185,000.00.



## Example 13 - Wrong Office

- The name of the office was Riverside Family Dental.
- The office manager formed a company called South River Family Group.
- When insurance and personal payments were made to the office, she would deposit the payments into the fake corporation.

## What the Doctor can do to prevent this.

### 1. Review the Daily Journal

- Every computer system allows printing of a Day Sheet or Daily Journal.
- The Daily Journal should always be printed showing what transactions were entered for the day - this allows the Dr. to see if any transactions were back dated.
- Charges, payments and adjustments should be reviewed by each provider in the office.
- We recommend writing your initials on the report and filing in a notebook or saving a PDF to a secure location.

### 2. Deposit Slip

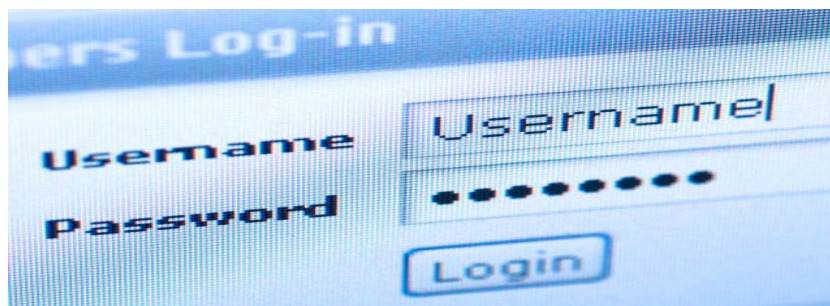
- The computer printed deposit slip should match the deposit receipt from the bank.
- Credit card slips should match the total "batch" report.
- The bank receipt and credit card batch receipt should be stapled to the Deposit Slip for easy reference and filed.
- Once the deposit is finalized, other payments that come in are held until the next day.
- Many banks offer check scanning that deposits the funds into the account.
- Entries into the accounting software should always be made from the Deposit Slip Reports.
- If entries are made from the bank statement or online access, the deposit will always match the monthly bank statement.

### 3. Receipt Book

- All cash payments require a receipt.
- We recommend a separate receipt book - instead of computer generated receipt.
- The receipt book should be imprinted with the Dr.'s name, address, phone number and each receipt numbered.
- The receipt book should be in duplicate (triplicate is even better) Once copy should go to the patient, one with the cash and one stays in the book.
- When a payment is received, the person receiving the payment should sign the receipt. Another staff person should verify the amount of the cash deposit and initial the receipt book.
- We recommend reviewing the receipt book weekly to insure cash payments match what was taken to the bank. Also leave the book on the counter so the staff knows you are checking.
- Some offices have installed drop boxes (like a casino) that cash payments go into and the doctor at the end of the day retrieve the cash.
- Some banks allow the personal and insurance checks to go directly to the bank for deposit. Once the bank receives the payment, the documentation is scanned and uploaded online for the office.

### 4. Computer System

- Each employee should have their own login into the computer system.
- This will allow you to track who performed each transaction in the computer.
  - All computer systems allow you to establish the user's administrative privileges. All privileges should be based on the employee's job responsibilities.
  - Sharing of passwords between staff members or generic logins should ever be allowed.
  - When leaving a computer, the employee should logout of the system.
  - Only the doctor should have the ability to add employees or set the administrative privileges in the system.
  - Closing the month/locking the month into place.
  - All systems have the ability to lock the transactions into place.
  - In most systems it is a routine that has to be undertaken and is not automatic.
  - Locking the transactions into place will insure the numbers remain the same from month to month.
  - Will allow the office to see if transactions were entered in a previous month.

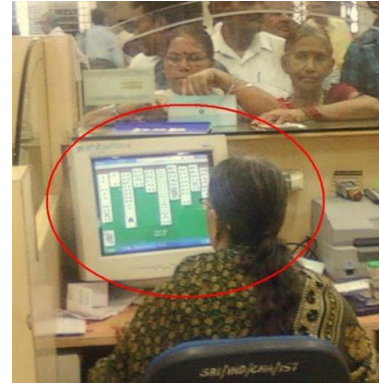




## 4. Computer System (cont)

- Removing games.
- Blocking access to certain website. The average American wastes 2 hours a day on non-related work websites <sup>1</sup>.
- Installing computer monitoring software.
- Blocking access to changing the date and time.

<sup>1</sup> - Wasting Time: American Employees Waste 2 Hours a Day.  
(<http://www.libgig/node/1011>)



## 5. Deleted Transactions

- Your computer system should allow you to print a Deleted Transaction Report or Audit Report.
- The report shows who and when a deletion was made and a reason why.
- Watch for multiple transactions and a cash payment being deleted.

## 6. Inventory Control

- How much supplies are you ordering? Do the needs fit the office?
- Review the packing slips and matching them to the monthly statement.
- Implement a supply ordering system.
- Are your supply totals inline with the industry norm?
- Keeping gold locked in a secure area.

## 7. Accounting

- Who is writing the checks for the office?
- Checks should never be stamped with a signature.
- The person who writes checks should never reconcile the bank statement with the checkbook.
- Review the checks from the bank to insure the payee is correct and it is the doctor's signature.
- Checks should never be kept in an open area.

## 8. Security

- Implement a security camera in key areas of the office.
- The camera can not be in the bathrooms or changing rooms.
- Audio can not be recorded.
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- Cameras also allows for remote monitoring of the office.
- Some states require the employee to be aware of video surveillance system.
- Each employee should have their own alarm code. This will allow monitoring of when staff members turn on/off the alarm.
- Keys should be stamped - "DO NOT DUPLICATE".
- Employee Dishonesty/Theft Insurance policy has coverage. Not all insurance policies have this section. The cost of a fraud investigation can cost up to \$25,000.00.

## **9. Payroll**

- Only the doctor or office manager should have access to change employees' times.
- Biometric device to clock employees in/out.
- Review the timesheets for the amount of hours worked by each employee.
- Review the paychecks and check the hours against the time sheet.
- Review if there are other additions such as reimbursements, vacation, sick pay or overtime.
- Review the gross wage of the employee and payroll taxes withheld.
- At year end match the W-2 tax statement to the final paycheck paystub. The two numbers should match.

## **Daily Routines**

- Review the Daily Journal for charges, payments and adjustments.
- Review the deposit slip.
- Review the schedule to insure all patients are on the schedule.
- Evening call list.

## **Monthly Routines**

- Review the month end reports - checking for oddities.
- Review the Accounts Receivable Report.
- Review the Patient Statement Report.
- If the Dr. is not taking the deposit to the bank, reconcile the deposit totals to match the bank reconciliation report.
- This should be performed by the doctor and not a staff member.



# Weekly Routines

Review the Deleted Transaction Report (if not daily).

Review the Receipt Book.

Review invoices for supplies ordered.

What if you suspect fraud has happened to you?

Identify why you feel fraud has occurred.

Gather and review the necessary documents to confirm or deny your suspicion.

Call and get help from a forensic accountant or consultant. Insure your expert has experience in the area you are investigating.

If your findings confirm embezzlement has occurred, call the local authorities.



The above information are handout notes from an anti-embezzlement lecture presented by Steven Kanzaki in 2014

**For questions or comments, please contact:**

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