



How to Reduce Fraud Risk in Your Dental Practice

By Douglas Fettig, CPA, MBA

Picture this: You own a dental practice and have a longtime office manager (let's call her Helen) whom you trust. Helen takes care of everything, and because of this, you never have to worry about the practice's accounting or finances. But she has other plans in mind — Helen is going to steal from your practice.

Before we talk about how she perpetrates this crime, let's review the three fundamental components — see the “Fraud Triangle” at right — that are present in every fraud scenario:

- **Opportunity:** The ability to engage in fraud due to weak or nonexistent controls.
- **Incentive/Pressure:** The factor that is driving the need to commit fraud (e.g., excessive credit card debt, addiction, etc.).
- **Rationalization:** The ability to justify the behavior in one's own mind (thinking things such as, “The doctor won't miss the money,” or “I should have gotten a bigger raise,” etc.).

Opportunity

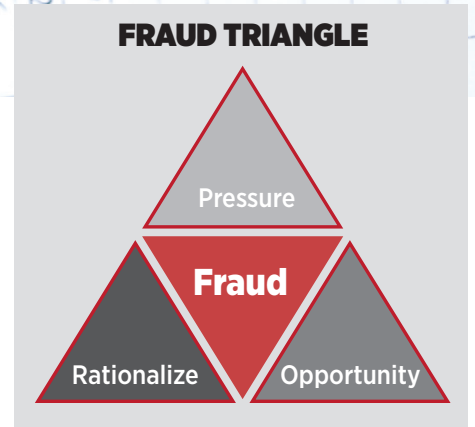
Here's the scenario: You decide to take a three-week mission trip to provide dental care in Haiti. You want to ensure that the practice still runs smoothly and that ongoing bills are getting paid, so you presign 20 checks and give them to Helen before leaving the country.

Pressure/Incentive

Helen has a gambling addiction that's beginning to overwhelm her life. Using those presigned checks could relieve some financial pressure for her, so she makes a photocopy of the signed, blank check. On that photocopied check, she writes the word “copy” and makes it out to ACME Cleaning, your office cleaning and landscaping service, as if to pay an \$800 invoice. After that, Helen photocopies that check and puts it into the files. Meanwhile, she still has the original blank check, which she proceeds to write out to herself for cash.

Rationalization

Helen knows you have an annual income of nearly \$350,000, so she justifies her



actions by rationalizing that you can easily afford to pay her the money she's stealing and you won't even realize that it is gone.

When ACME Cleaning doesn't receive payment, they eventually call your office. A team member goes to the files and sees a copy of the check made out to ACME Cleaning for \$800, and so he or she proceeds to work with your bank to understand why the check hadn't cleared. You belatedly review the bank statements and the original cancelled check, and then realize the check was actually made out to Helen.

Once this is discovered, your certified public accountant calculates that Helen cashed all 20 of the presigned checks,

totaling \$25,000. Unfortunately, Helen spent the entire amount fueling her gambling addiction, and since you have no way to recoup the funds, you terminate Helen without pressing charges.

How Could This Have Been Prevented?

While the loss of the \$25,000 was painful (though not financially devastating), the emotional aftermath may hurt worse. Dentists who uncover fraud in their practice can feel devastated and betrayed, sometimes making it impossible to completely trust another team member or business associate.

Reducing the chances of fraud can happen in a few simple steps. It can be reduced — not completely eliminated — because the cost of the level of oversight required to guarantee that fraud could never occur would financially cripple a practice. Not to mention, it would drive away your best team members, who would resent working in an environment of micromanaging and excessive oversight.

Consider these five steps to reduce the threat of fraud in your dental practice:

1. Ensure that all employees take regular time off and are cross-trained on duties involving finances. Don't fall into the trap of convenience with your team. If one person offers to handle all of the bookkeeping, etc., for the practice, your initial reaction may be, "Wow, now I can just focus on being a dentist!" Yet you are actually damaging your practice by not ensuring that there are others who are cross-trained to perform those tasks. When more than one person is periodically "looking under the hood" of your bookkeeping and finances, it helps everyone understand that this is a team effort.

To help deal with the stresses of everyday life and promote work/life balance, make sure that your team members are taking periodic vacation days. This can help eliminate the "pressure/incentive" element of fraud.

2. Never presign a check. I've already illustrated the dangers of presigning

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checks. In this day and age, it's easy to handle all of your banking online. Even if you are not comfortable banking online, all it takes is a little planning to ensure that the bills are paid, if you are leaving the office for an extended amount of time. Determine what needs to be paid while you are gone (e.g., rent, utilities, etc.), and then send the checks before you leave, or, if you would prefer to manage your cash flow a bit more tightly, completely fill out the checks and ask your office manager to mail them at the appropriate time (or you can mail them from a remote location).

3. Have the bank statements sent directly to your home. The bank statement serves as the record of every transaction made between your practice and the bank. These should be sent directly to your home address, and you should be the one to receive them. This ensures that you are receiving an unaltered statement directly from the bank. Once you receive the statement, review the transactions for anything that looks odd or that you don't recall. The bank statement can then be used when you have your regular team meeting that focuses on finances.

4. Conduct a monthly team meeting, focused on practice finances. Holding a monthly team meeting with the appropriate team personnel to discuss practice finances serves two important purposes. The first is that it engages and empowers your team. Allowing them to understand the practice finances and to be involved in that process helps motivate them and incentivizes them to hit their goals.

Second, it lets your team know that you are on top of the finances. By conducting a monthly meeting to discuss production, collections, write-offs and expense

variances, you are indirectly imparting the message that you are fiscally responsible. When you ask, for example, about a \$1,200 transaction on the bank statement, you are sending the message that the statements are being reviewed.

5. Review the electronic security log that tracks employee access to the office. This may be the simplest and most effective way to determine if an employee is engaging in fraud or embezzlement. Simply review your building access security log and see if any of your employees are entering at odd or unexpected hours. If they are, this gives you the opportunity to ask why they are at the office when none of their other team members are around, thus helping you determine if fraud is being committed.

If you follow these five steps, will you completely prevent fraud from happening in your practice? Of course not. Will you reduce the potential for a fraudulent situation to occur? Definitely.

Strong internal controls protect your team members by reducing the opportunity for them to engage in behavior that could have devastating consequences for everyone involved. And if you are uncomfortable discussing these controls with them, use these steps as talking points. Your message to the team is that the controls being put in place are for everyone's protection and to ensure that the practice is well-run, which ultimately benefits all of them.

Don't hesitate. Implement the five-step program to better control your dental practice! ♦



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