



**HOW DO YOU AVOID  
EMPLOYEE  
EMBEZZLEMENT?**

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**Report to the Nation on  
Occupational Fraud and Abuse**

- ◆ Smaller organizations are the most vulnerable to occupational fraud and abuse.
- ◆ Organizations with 100 or fewer employees suffered the largest median losses per capita.
- ◆ Sophisticated internal controls are less prevalent in smaller organizations.

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Don't ask James McIntyre, a long-time Denver dentist, about his former office manager of 10 years.

She drained his practice of at least \$65,000 over three years by forging his signature on checks. Worse, she stole his faith in people.

"I am not trusting any more," McIntyre said. "I am very angry at this woman." His office manager received a three-year, suspended sentence and must pay \$1,000 a month in restitution.

Embezzlers: Enemies within  
 DA prosecuting dozens of cases; small firms suffer  
 Aldo Svaldi Business Journal Staff Reporter

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Lisa Curtis, director of consumer services for the Denver district attorney, said employee embezzlement represents about half the caseload handled by the economic crime unit. The unit now is prosecuting more than 25 cases representing more than \$1.5 million in losses, Curtis said, and investigations are under way in many more.

In most cases of employees stealing from employers, the fraud lasts a year or two and amounts range from a few dollars to as much as a half million – the biggest embezzlement case in the district attorney's case files.

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### Dentists Are Easy Targets For The Embezzler

- ◆ Knowing this will, hopefully, increase your awareness but you must take an active role in the financial workings of your practice in order to significantly reduce your exposure to embezzlement.

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### **WHY IT HAPPENS**

Personal financial pressure	66%
Vices (e.g., abuse of drugs, alcohol, gambling)	48%
Real or imagined grievances against the company or management	42%
Ongoing transactions with related parties	27%
Increased stress	27%
Internal pressure (e.g., management pressure to meet budget)	
Short vacations/unexplained hours	11%

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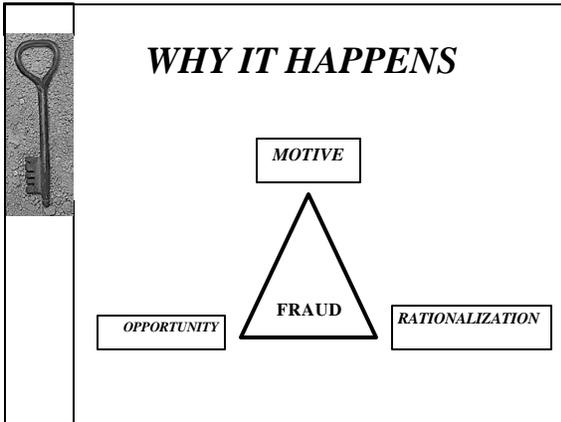
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**Three Key Factors For Fraud**

- ◆ **Situational Pressures (*RATIONALIZATION*)**
  - An employee may be under pressure due to excess debt, job frustration, etc. Often employees feel they are unable to share these problems with their family or co-workers
- ◆ **Opportunities (*OPPORTUNITY*)**
  - An employee's opportunity to commit fraud generally increases as his or her responsibilities increase or when there are inadequate internal controls in place

KPMG Peat Marwick

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**Three Key Factors For Fraud**

- ◆ **Personal Integrity (*MOTIVE*)**
  - This is probably the most important factor. A person intent on committing fraud can often succeed even in a well-managed organization. Conversely, a person with strong moral values will probably not commit fraud even when faced with situational pressures and the opportunity to do so.

KPMG Peat Marwick

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## Embezzlement is a Breach of Trust

- ◆ People below the age of 25 had a median loss of \$12,000
- ◆ Those over 60 had a median loss of \$346,000
- ◆ You trust a person who has worked for you for years more than someone who has just started working; also the older person generally has greater access to the assets of the company.
- ◆ The 60+ crowd most likely had fewer incidents of loss but a larger amount in dollars

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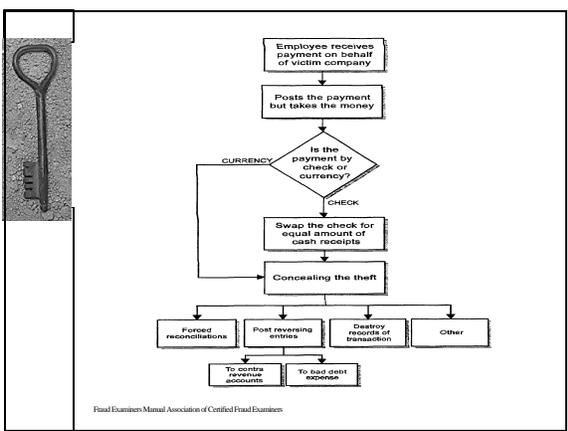
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## KEEP YOUR EYES OPEN FOR FRAUD WHEN AN EMPLOYEE:

- ◆ Openly resents the dentist's substantial income and the lifestyle they have.
- ◆ Always seems to have a lot of cash on hand.
- ◆ Office procedures always seem to be an annoyance to them.
- ◆ Adamantly resist any change in the present accounting system.

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	<p><b>KEEP YOUR EYES OPEN FOR FRAUD WHEN AN EMPLOYEE:</b></p> <ul style="list-style-type: none"> <li>◆ Starts using new vendors that you have never used before.</li> <li>◆ Starts trying to collecting overdue accounts.</li> <li>◆ Is lax about the petty cash fund.</li> <li>◆ Refuses to take vacations that last longer than two days.</li> <li>◆ Wants to be the one to open the bank statement.</li> </ul>
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	<p><b>KEEP YOUR EYES OPEN FOR FRAUD WHEN AN EMPLOYEE:</b></p> <ul style="list-style-type: none"> <li>◆ Appears to be a workaholic.</li> <li>◆ Produces sloppy records.</li> <li>◆ Acts like an empire-builder.</li> <li>◆ Seems overwrought about family or personal problems.</li> <li>◆ Asks for frequent pay advances.</li> <li>◆ Abruptly changes their spending patterns.</li> </ul>
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	<p><b><i>How will I know when I am being defrauded ?</i></b></p> <ul style="list-style-type: none"> <li>◆ Patient complaints (e.g., "I already paid that balance.")</li> <li>◆ Problems detected through your existing internal controls.</li> <li>◆ Unexplained and unusual financial statement trends.</li> <li>◆ Accidental discovery of something wrong with the books.</li> <li>◆ A sudden increase in employee's lifestyle. New cars, vacations, home remodeling, new house, etc.</li> </ul>
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***How will I know when I am being defrauded ?***

- ◆ Employee confession (this obviously is rare).
- ◆ Occurrence of one of these indicators might be explainable; however occurrence of two or more should lead to further investigation.

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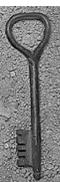
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***HOW IT HAPPENS***

- ◆ The doctor sets the tone and ethics of the office.
  - Make sure your office staff knows that you do not cheat on your Income Tax returns. If you do cheat, plan to be a hostage in your own office.
  - Overtly account for all charge slips & cash receipts:
    - After-hour receipts mailed to patients by front office staff
    - All patients logged into the office
    - Insist on pre-numbered patient charge.
    - Pay overtime. Don't cash checks in deposit, but if you do, write a personal check and put it into the deposit if you take money out. Don't let staff do this.

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***HOW IT HAPPENS***

- ◆ The most common method of embezzlement in a dentist practice is by the office manager.
- ◆ The office manager generally knows the makeup of the deposits and knows the vendors, what they supply and what they charge.
- ◆ Has a reasonable understanding of your patient base.

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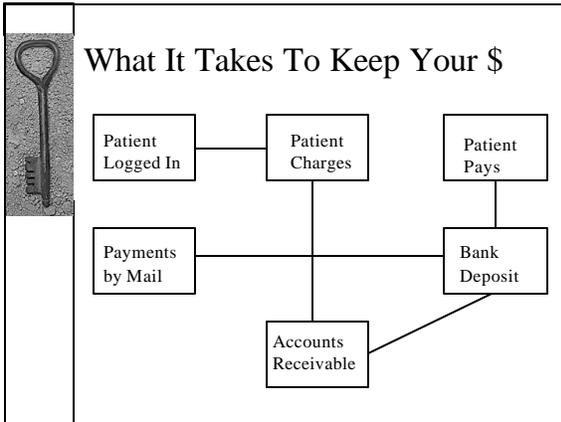
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**HOW IT HAPPENS**

◆ **Pocketing cash from patients:**

- Look at controlling charges, not just controlling cash.
- Who generates charges?
- Who approves discounts, contractual allowances, bad debts write-off?
- Control over charges sent to collections, written off.

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**HOW IT HAPPENS**

◆ **Stealing petty cash.** Very common.

◆ **Lapping checks:**

- The perpetrator steals cash or checks from the daily deposit and replaces them with subsequent receipts.
- Lapping is a more sophisticated embezzlement technique and accordingly more difficult to detect because accounts receivable thefts are not visibly detectable.

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	<p><b><i>HOW IT HAPPENS</i></b></p> <p>◆ <b>Insurance Fraud:</b></p> <ul style="list-style-type: none"> <li>- The perpetrator may add bogus charges to an otherwise bona fide claim form.</li> <li>- The employee might create an entirely fraudulent claim form for an existing patient.</li> <li>- Upon detection of this technique, you may be considered just as guilty as your employee because your provider number is being used to commit the crime.</li> </ul>
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	<p><b><i>HOW IT HAPPENS</i></b></p> <p>◆ <b>Forged Endorsements:</b></p> <ul style="list-style-type: none"> <li>- This is often how checks are stolen from the practice.</li> <li>- Or even easier, the employee, when asked "To whom do I make out the check?" responds "Oh, don't worry about it, we have a stamp."</li> <li>- The check is subsequently written to the order of the employee instead of the practice.</li> </ul>
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	<p><b>Duplicate/Phony Vendor Payments</b></p> <ul style="list-style-type: none"> <li>◆ This technique is also quite common -</li> <li>◆ The employee might have you sign a check paying an invoice that has already been paid.</li> <li>◆ The employee then simply forges an endorsement on the check and deposits the check in his or her own account.</li> <li>◆ The employee creates a bogus supply company that he or she actually owns. If undetected, this would provide a nice income stream for the perpetrator.</li> </ul>
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### Duplicate/Phony Vendor Payments

- ◆ In larger organizations it seems to involve accounts payable (what you owe) more than charges.
  - A massive fraud that rocked HealthSouth Corp. and led to criminal charges against 10 former executives was accomplished using simple, manual entries in a computer system, according to testimony in federal court Tuesday.
  - "Invoices received by the company typically are entered into an advanced software system that conducts a 'computer audit.' The system also creates reports as it generates checks," said Barbara Patton, who manages HealthSouth's accounts payable department

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### HOW DO YOU REDUCE THE POSSIBILITY OF EMPLOYEE EMBEZZLEMENT

- ◆ (You should note that the title of this section is not "Preventing" Employee Embezzlement )
- ◆ Keep in mind that if an employee is sophisticated enough and is determined to embezzle from you, he or she probably will.

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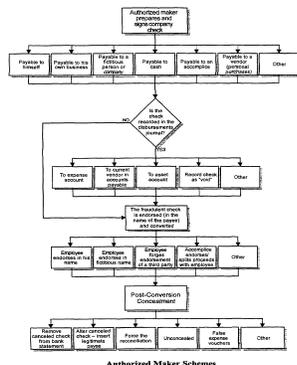
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**Practice to Significantly Reduce Your Risk of Being Defrauded**

- ◆ Check References
- ◆ Credit Bureau
- ◆ Bond Employees
- ◆ Be Visible
  - A dentist who has a hands-off management style is much more likely to be an embezzler's target. Lack of dentist involvement enhances any opportunities an employee might have.
- ◆ Accounts Receivable

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**Practice to Significantly Reduce Your Risk of Being Defrauded**

- ◆ Review/authorize adjustments
- ◆ Pre-numbered charge tickets /encounter forms
- ◆ Endorse payments immediately
- ◆ Accounts Payable. Proper supporting documents
- ◆ Mark "PAID." To prevent an employee from paying the same invoice twice

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**Practice to Significantly Reduce Your Risk of Being Defrauded**

- ◆ Bank statements should be mailed directly to the CPA
- ◆ Two signatures/signing limits
- ◆ Refund checks
  - Make sure you know the patient who is being issued a refund check. Ask for a copy of the patient's ledger to verify the credit balance.
- ◆ No typewritten checks

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### Practice to Significantly Reduce Your Risk of Being Defrauded

- ◆ Consider using an outside vendor to maintain the accounts receivable and send out statements. Many frauds happen because an office cannot separate duties so that the person billing is not the same as the person receiving the money.

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### HOW DO YOU HAVE A DIVISION OF RESPONSIBILITIES

- ◆ The best method of reducing the opportunity for an employee to commit fraud is by properly separating the financial tasks in the office.

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### Job Separation Chart

Assistants' Names							CPA	Dr.
<b>Duties</b>								
Opens Mail	X							
List and Copies Checks	X							
Post Cash & Check Receipts		X						
Post Charges			X					
Approves Adjustments								X
Posts Adjustments		X	X	X	X			
Prepares Deposits		X						
Makes Deposits	X							
Have Access to the Checkbook					X			
Prepares Payables for Payment					X			
Prepares Refund Checks					X			
Signs on Bank Account								X
Opens Bank Statement							X	
Reconciles Bank							X	

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**THE DENTIST'S FIVE-MINUTE AUDIT**

- ◆ Compare the day's patient appointment list to day sheet.
  - Verify that every patient seen was charged
- ◆ Scan adjustments. Know why they are being made.
- ◆ Open the mail, review payments. Check that the daily deposit agrees with the amount of the checks in the mail plus the over-the-counter payments received during the day.

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**THE DENTIST'S FIVE-MINUTE AUDIT**

- ◆ Have the office send what the day sheet / computer says the amount of cash collected, the charges and adjustments to the CPA for reconciliation.
- ◆ Compare day sheet to deposit slip. The day's payments per the day sheet should agree to the amount of the bank deposit.

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**Hire an Honest CPA**

- ◆ A Billerica, Mass. based tax preparer was sentenced to 10 months' incarceration for preparing fraudulent tax returns, according to the U.S. Attorney's office there.

Louis Champagne, 63, had pled guilty to 23 counts of preparing fraudulent individual income tax returns by overstating clients' business mileage, business expenses, meal and entertainment costs, and other deductions to the tune of more than \$133,000. He received no financial benefit from the returns, but his business grew dramatically during the early 1990s, the U.S. Attorney says. --Electronic Accountant Newswire staff

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**Want Some Free “Ink”**

**H&R Block worker at center of ID scam**

WHITE PLAINS, N.Y. (AP) — An office manager at the H&R Block tax-help company used customers' names, Social Security numbers and dates of birth to steal their refund checks, withdraw cash from their bank accounts and obtain credit cards in their names, prosecutors say.

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**Recap**

- ◆ Be Honest
- ◆ Hire Honest Workers
- ◆ Retain an Honest CPA
- ◆ Don't Expect What You Don't Inspect.

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**ADDITIONAL INFORMATION**

- ◆ Adapted from *Detecting And Avoiding Employee Embezzlement* by Joseph E. Kalinowski, CPA, PFS, CPBC.; ADA Guide for New Dental Practices
- ◆ *Report to the Nation on Occupational Fraud and Abuse* by the Association of Certified Fraud Examiners
- ◆ California CPA continuing education course material on fraud

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