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# Common Misconceptions About Dental Embezzlement

by David Harris and Myles Bilodeau

Embezzlement against dentists is a big problem. Published statistics suggest that the lifetime probability of dentists being defrauded exceeds 60%, and fraud costs dentists in North America \$1.5 billion annually.

There has been a lot written about dental fraud in the last few years. The authors are accountants, practice management consultants, and dentists describing their own fraud experiences. As the experience these authors have with investigating dental frauds is limited, some of their (well-intentioned) writings perpetuate what we consider to be misconceptions. The purpose of this article is to set the record straight on some of these myths.

## Myth #1

Failure to perform proper background checking when hiring contributes to fraud.

We think checking backgrounds carefully is an excellent idea. However, the majority of substantial frauds we see are perpetrated by long-service employees of the practice with no previous “baggage”. We are sure that, in the majority of these cases, the employee had no thought of stealing when hired. There are a few “serial embezzlers”, but they cause less than 3% of dental thefts.

## Myth #2

A good system of checks and balances prevents fraud.

This is a recurring theme in fraud articles. Controls of any sort (whether in a dental office or the burglar alarm in your house) prevent fraud in one of two situations:

- The crime is a “crime of opportunity”, or
- The criminal has possible alternative victims

The burglar alarm works because it convinces a thief to rob a different house. However, dental employees who are either financially desperate or sociopathically greedy do not have an alternative target (i.e. no other house that can be robbed).

Employees know their dentist well and know intimately whatever control systems are used and design a fraud that bypasses them. We see far too many frauds com-



mitted in offices with exemplary internal controls to be able to believe that such controls deter or prevent fraud.

We certainly do recommend using security features in dental software like hierarchical passwords properly – while this will not prevent fraud, it will make investigation far easier.

## Myth #3

Checking your day-end sheet every day is a good way to prevent fraud.

We think that checking the daysheet should be part of every dentist’s routine because the number of clerical errors revealed clearly justifies the effort. However, only the stupidest thieves will effect a fraud leaving the daysheet unbalanced. Despite the sophistication of most dental software, it is childishly easy to construct a fraud that bypasses the daysheet.

## Myth #4

The best way to spot fraud is randomly checking transactions, reviewing bank statements and cancelled checks or a thorough analysis of practice financial information.

Solo dental practices typically have thousands of “transactions” monthly. Spot checking truly is seeking a needle in a haystack – it is theoretically possible to find a fraud but statistically unlikely. When we are investigating a fraud, we make use of fairly sophisticated software to isolate the transactions that are possibly fraudulent.

Over 90% of the fraud we see in dental offices is “revenue-side fraud” (involving the diversion of practice revenue to the thief). Checking bank statements and cancelled checks will not reveal this type of fraud.

We have had frequent discussions with consultants and accountants who are convinced that some form of statistical analysis is likely to reveal fraud. While we agree that some frauds will be revealed by analysis, they are in the minority of frauds we investigate. For example, if someone is paying non-existent suppliers, this may affect an expense ratio sufficiently to be noticed. However, as discussed, this type of fraud is infrequent. While the amount stolen in revenue-side frauds can be significant, thefts normally aren't sufficient to distort ratios.

Even less detectible is when fraudsters use "upcoding" to overbill insurance companies. This theft involves creating extra revenue and then pocketing it, and accordingly defies any type of statistical or ratio analysis.

While the many possible fraud pathways in an office are difficult for a dentist or accountant to find embezzlement by analysis or audit, fortunately the behavioral manifestations of fraud are fairly constant, and easy to observe by the dentist. Being sensitive to staff behavior consistent with fraud is the most reliable (and affordable) means for dentists to monitor fraud. On request from a dentist, we can supply a self-assessment questionnaire to facilitate this analysis.

## Myth #5

If I suspect fraud, I should call (pick one of) my accountant, the police, my dental software company, my astrologer.

The single most important factor when fraud is suspected is stealth. Awareness by the fraudster of your suspicions may result in destroyed evidence (often with considerable collateral damage). The only safe way to investigate a possible fraud is to engage investigators who can unobtrusively access and analyze your practice software records remotely. It is unlikely that any of the parties referred to above can do this properly without alerting the suspect.

Fraud strikes the majority of dentists in their careers. However, by being aware of the behavioral symptoms of fraud, a dentist can often detect it early enough to avoid significant financial loss. A proper investigation can maximize recovery for the dentist.

*Bottom Line: Private investigators reveal some of the myths about dental fraud.*



### David Harris and Myles Bilodeau

David Harris and Myles Bilodeau are both private investigators with Prosperident, experts in the detection, investigation and remediation of frauds against dentists.

They can be reached at (905) 422 0592 or email [david@prosperident.com](mailto:david@prosperident.com) or [myles@prosperident.com](mailto:myles@prosperident.com).

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