



# I Was a Victim of Embezzlement

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I am a private investigator with an MBA and a professional accounting designation. For over 20 years, my company Prosperident and I have specialized in investigating frauds committed against dentists.

I met a very interesting orthodontist, Dr. Nicole Jane, at a fraud presentation I gave earlier this year. Nicole had been an embezzlement victim early in her career. Since then, she has remained interested in this topic and now lectures on fraud in several orthodontic residency programs.

While much has been written on fraud for general dentists, the topic of fraud against orthodontists has had almost no coverage. Although many orthodontists consider embezzlement to be something that doesn't touch their corner of the profession, this demonstrably is not true. For this reason, we both thought it important that Nicole's story be told.

## NICOLE, CAN YOU PLEASE TELL US WHAT HAPPENED TO YOU?

**[NJ]** I graduated from Dental School in 1998, and immediately went to serve in the United States Navy as a general dentist. My first year was at a large clinic, the final two on the USS Carter Hall, where I was the sole dental officer. The experience in the Navy was vast as I was able to see the world, and also run a dental practice without the financial stress of a business. Knowing that I truly wanted to be an orthodontist, I returned to residency, receiving my Masters in 2004.

After graduation, I purchased an orthodontic practice. The arrangement was that the current owner would remain as my associate for a year. After all the long hours I had invested in my career, I was eagerly anticipating becoming a practice owner. Unfortunately, I didn't realize that the practice came with "baggage". Embezzlement was occurring but this was not recognized by the former owner.

**[DH]** How did you discover that embezzlement was happening?

**[NJ]** I had attended a lecture where the consultant had suggested mailing statements to all patients. I had my (newly hired) office manager do this immediately after my purchase. Then the phone calls started coming....."I paid last month, but it doesn't show in my balance." "I just got my statement and the contract amount is different than what I have on my paperwork." "Why wasn't my insurance billed?"

I quickly realized that I was not just an orthodontist with a practice, but the owner of a business that was running awry. I had to make tough decisions quickly that had everything do to with my business' success and nothing to do with clinical care.

Many orthodontists and dentists have been embezzled by their trusted employees. In fact, it is usually that most trusted long-term employee who commits the fraud. I was very fortunate because I was able to discover this unsettling circumstance quickly.

**[DH]** Definitely. Published statistics suggest that the chance of a dentist being embezzled in their career exceeds 60%. There are no statistics specific to orthodontists, but nothing suggests the probability is much different. What you say about trusted staff is absolutely true; virtually all major frauds are committed with employees with eight or more years' seniority.

Also, thieves generally keep stealing until they are caught, so your early detection probably saved you from a major ongoing problem.

## HOW WERE THE THEFTS BEING CONCEALED?

**[NJ]** Most embezzlers are quick to answer the phone to divert these messages and reassure callers. Because I had a new office manager these comments made it through to me. My office manager and I spent many nights reviewing the statements of the patients who called the office with concerns. And then I hired a lawyer.

My lawyer advised to ensure that I had ample evidence against the suspects before revealing to staff, patients, and anyone else (except the former owner) my suspicions. He directed me in what to look for.

He reviewed the evidence with me, and then guided me on how to approach the situation. What I began to realize was that the more I dug, the more I found, and that the thieves were embezzling through multiple means.

**[DH]** Again, this part of Nicole's experience is typical-- most of the frauds we see involve thieves using more than one scheme to steal. Thieves know that their best chance to remain undetected is not to overuse a single modality. The desire to control information flow between patients and the practice that Nicole mentions is something we see often, and this behavior features prominently in the fraud self-assessment questionnaire that we give dentists.

**[NJ]** Patient contracts were sometimes recorded outside the practice management software. This kept the payments off the books so that they could be pocketed by the embezzlers. Insurance checks were being misdirected by the embezzlers to other bank accounts. This was concealed by writing off patient contracts once the patient's balance had been settled. When the patient received the Explanation of Benefits, they assumed the payment went into my bank account. Cash payments made by patients were taken, deposited into the embezzler's account, and written off as "uncollectible".

By reviewing the receipts, deposits, and contracts I found over \$6,000 that I could PROVE was taken in the month and a half that I owned the practice. (Realize that this is \$1,000 per week.) More was probably stolen -- I will honestly never know. I also found that embezzlement had been going on for some time against the former owner. Not only that, but they were also using his credit card for personal expenses!

**[DH]** I'll throw out a few statistics here; most frauds carried out by experienced employees go undetected for three or more years, most are discovered by accident, and it is quite common to see between 4% and 7% of gross revenue stolen on a monthly basis. Had Nicole not taken the pro-active steps that she did, this could easily have cost her hundreds of thousands of dollars.

**[NJ]** Once my lawyer was convinced I had sufficient evidence to prove wrongdoing, the previous owner and I confronted the two suspects. We had contracts, receipts and printouts of the supposed "uncollectibles". We simply demanded an explanation. The staff members denied any wrongdoing, explaining that they did not know what was going on. However, I had ample evidence otherwise and immediately fired them. I also decided to prosecute. The lawyers' fees and prosecution were incurred solely by me as the other orthodontist wanted nothing more to do with the situation.

I contacted the local police department regarding the fraud. They took my deposition and copies of my evidence. The fired employees started work at a nearby dental office (no reference check was made by the dentists who hired them). After eight months, the police informed me that one staff member was found guilty, the other innocent. Three years later I received a check in the amount of \$3,000 from the County. What I did not realize at the time was that I did have insurance to cover my losses (up to \$25,000).

**[DH]** My personal bias will show here, but it sounds like the lawyer advising you did some things right, but also missed some important steps. Not claiming under your employee dishonesty insurance is one obvious oversight.

Also, if checks payable to you were deposited into an employee's bank account, the depositing bank has financial responsibility for accepting improperly endorsed checks, and it is usually pretty easy to get this money back.

Although the former owner didn't want involvement, we have had success in obtaining their agreement to "subrogate", allowing the new owner to pursue their losses and share recovery with them. The former owner probably also had fidelity insurance coverage, and again getting improperly deposited funds returned to him should have been easy.

At the end of the day, there is no substitute for experience in investigating and obtaining recovery. It's too bad that we didn't know each other then, Nicole.

## **SO HOW HAS THIS EPISODE AFFECTED YOUR LIFE AND HOW YOU PRACTICE?**

**[NJ]** I consider myself fortunate. I have had colleagues lose over \$150,000 from employee embezzlement. I discovered the fraud within a month of buying the practice. I was able to fire these devastating employees before they could do much harm, and move on very quickly. I also learned that I was running a business, and not just a clinical practice. I review my reports daily to ensure that charges are properly accounted for, and deposits match the charges. I review all my credit card charges, and other invoices, checks and bills in the practice. If an employee changes a patient contract, I always ask why.

**[DH]** And how did this affect you emotionally? It seems like your situation was easier than most because these employees were new to you, and you had no particular attachment to them.

**[NJ]** Employee fraud is financially and emotionally taxing. I had one more item that I needed to take care of getting my new practice transitioned. I had two more staff members to hire and train (a front desk person and a laboratory technician). I was concerned regarding the goodwill of the practice as one fired employee had over ten years' seniority. I didn't know if I could trust other employees, or even the former owner. Seven years later, I have again learned to trust my employees, but I still review my daily transactions every day. I fully

realize that I am a business owner as well as an orthodontist.

**[DH]** What should your colleagues learn from your experience?

**[NJ]** Although some residencies are placing more emphasis on the business aspect of the private sector, full preparation is not possible until you are there. Why? For most residents, this is the first time they have worked with staff members or in a business setting.

Staff is critical to the success of our orthodontic practices. We cannot be orthodontists without assistants at our side, the front desk welcoming people, and financial coordinators handling money and insurance. Orthodontics is a business and we need our staff to help manage it.

However, our practice is our business. We are the bosses. We need to oversee not only the treatment of our patients, but the everyday matters of the practice. We need to trust the people we have hired to help us do that. But we also need to keep in mind—always—that this is our business and that "the buck stops here".

**[DH]** This is some excellent wisdom for your colleagues. As I said at the outset, there is a common myth among orthodontists (probably because of the predictable way patients pay for orthodontic treatment) that orthodontists are not susceptible to fraud. I find it interesting that, with the exception of my own writing on this topic, there has not been an article specific to orthodontists written on this topic in almost 20 years.

Nicole's experience (and unfortunately that of many of her colleagues) exposes this belief as fallacy. The methodologies employed by the thieves in her case (off books transactions, false write-offs and diversion of funds) are not particularly sophisticated as far as fraud methodologies go, but were sufficient to successfully steal from the former owner of the practice, an experienced practitioner.

Finally, I'd like to address the concept that fraud is somehow preventable. Much of the dental literature (as I mentioned, there is nothing specific to orthodontists) suggests fraud can be "prevented" by making practices "hard targets". This is fallacious; crimes of opportunity can be deterred by control measures, but embezzlement is a calculated crime carried out by a thief with awareness of the controls employed and quite capable of circumvention. Nicole's experience shows us that a focus on proactivity and early detection (like her wisely sending out statements without staff interference) is the best path to success.

## **I'D LIKE TO THANK NICOLE FOR SHARING HER EXPERIENCES AND HER RESULTANT LEARNING.**