



Don't
**UNDER-
ESTIMATE**

▶ *the Embezzler*

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As investigators, one thing we encounter every time we speak to a group of dentists is that, in the area of embezzlement, they consistently underestimate the capabilities of their opponents.

The most common question asked of us is, “Will this control/procedure/auditing step work?” followed by some procedural change that the questioner intends to implement. Normally, this change is designed to block a specific embezzlement methodology.

For example, one question recently asked in a presentation was whether using a “lockbox” system, where all mail gets delivered to a third party (which then opens the mail and inventories the contents), would prevent embezzlement.

This question is an example of *denial of opportunity* strategies for controlling embezzlement, because its goal is to block a specific embezzlement pathway.

While we don't think that strategies of this type are necessarily bad ideas, we do believe that their effectiveness in controlling embezzlement is overestimated.

Why Do People Steal?

Let's start by debunking one of the myths about dental embezzlement. Many dentists believe that embezzlement occurs as a result of hiring mistakes and poor background checking. Serial embezzlers (i.e., those who have stolen from other offices before) definitely exist, but they account for less than 15 percent of our investigations. The vast majority of our perpetrators have no criminal record and no adverse work history. However, since being hired by you, some pressure has caused them to begin stealing.

In some cases, it is financial desperation the thief is responding to. Various factors can make someone's financial position unworkable. It could be a spouse losing their job, some kind of addiction or a divorce. These people, who we label the “needy,” steal to preserve the basic needs of their family.

We call the second group the “greedy.” These thieves tend to be bright, and viewed objectively, are somewhat underemployed in your office. It is common for them to consider themselves (sometimes justifiably) as your intellectual equal, and therefore the perceived income discrepancy between you seems unfair. Of course, in this simplistic comparison, they fail to consider the educational differences and sacrifices that you made to achieve your position. Their social circle tends to include people who are better off financially. Money that is stolen is often spent on conspicuous displays of affluence.

Whether they are needy or greedy, embezzlers are responding to some powerful pressures. A motivated thief who possesses an intimate knowledge of your procedures and how you think is a truly dangerous opponent, and one who is unlikely to be deterred simply because you have

blocked some, but not all, options for stealing.

Embezzlement Versus Controls

Let's revisit the *denial of opportunity* strategies and see how they withstand assault from a determined, knowledgeable thief. We should mention that it is our policy not to discuss specific embezzlement methodologies in articles, so in order to protect dentists, we will confine ourselves to a general discussion of how a thief will overcome controls, but will not give information that might aid thieves.

The first thing we will point out is that any control or procedure that is dependent on implementation by a staff member is doomed. For example, many dentists have a policy that incoming checks are stamped "for deposit only" in the hope of stopping an embezzler from cashing them.

The flaw in this logic is that we shouldn't expect an embezzler to stamp the back of any checks that he or she plans to steal. So unless the dentist stamps the checks personally, this control is useless against embezzlement. And as we have pointed out on occasion, stamping the checks personally won't accomplish anything unless you also personally receive, open and keep complete custody of the mail until the checks are stamped. And even if you do all those things yourself (which might make you wonder why you even have a receptionist at all) we have seen many creative thieves find a way to redirect a portion of the incoming checks to a different address to escape the dentist's control.

We have also been told by dentists that embezzlement isn't possible in their office because they diligently check their day-end report against the bank deposit. We disagree, as do many embezzlers. We do believe that every dentist should review the day-end report, because he or she will sometimes catch honest errors and because it is a good way to monitor practice performance. However, any embezzler who knows that the dentist compares the day sheet against the deposit will not steal in a way that leaves a visible discrepancy; they will instead construct a method of embezzling that somehow hides the out-of-balance situation. And while again we won't discuss specifics, there are a number of possibilities for creating a situation where money was stolen but the daysheet and deposit agree. While we certainly agree that a "deposit shortfall" is indicative of a problem, the reverse isn't true.

Many dentists tend to view their day-end report, especially if they have checked it against their appointment book, as gospel, and they don't consider that thieves normally control what information gets entered into the dentist's practice management software.

Regrettably, there are hundreds of ways to steal from a dentist. For internal controls to be effective there would have to be a control to stop each embezzlement methodology an employee could use. This is impractical from both an economic and procedural perspective. Additionally, most

implemented internal controls are already known to the thief and can be discretely “tested” for effectiveness.

We must also consider that embezzlers are adaptive to new controls that are implemented. We have had numerous cases where a doctor, suspicious that an employee might be stealing, implemented additional internal controls. Typically, the suspect quickly adapted and began using a different embezzlement modality. This points both to the cleverness of the thieves involved and the strength of their compulsion.

Why Ethics and Best Practices are Important

A common thread in many embezzlement lectures and articles is that it is paramount for dentists to behave in an ethical manner and institute best-practice procedures. We concur. However, the prevailing thought is that engaging in ethical behavior will instill ethical behavior in staff and therefore discourage embezzlement. This is where we disagree. As already discussed, whether embezzlers are “needy” or “greedy,” they are under intense pressure to commit their crimes. Once they decide to steal, that fact that you are behaving ethically might make them feel guiltier about their crime, but your behavior isn’t strong enough to compete with their need to steal.

So, why do we stress that dentists should behave ethically? Most importantly, it is simply the right thing to do. Second, for your staff members who are not embezzling, your ethical behavior will set an example to follow. For the embezzler, however, we consider ethical behavior vital for a simple reason: You don’t want to issue a “Get Out of Jail Free Card.”

When embezzlers know their doctor has been engaging in unethical behavior or hasn’t instituted best-practice procedures, they have a powerful weapon at their disposal. One of the most frustrating aspects of our work occurs when we detect embezzlement, but the doctor is in no position to file a criminal or civil complaint because the embezzler has information that can literally make the doctor’s life miserable.

Some examples could include skimming cash that isn’t reported to the IRS, up-coding procedures, filing fraudulent insurance claims, improperly delegating duties to clinical staff, OSHA and HIPAA violations, or having an inappropriate relationship with a staff member.

By avoiding ethical lapses, doctors are better positioned to take action against an embezzler. Imagine the situation of an embezzling staff member who walks freely out of your office and then works for another doctor. Regrettably, we encounter this more often than we like. It is paramount to act ethically and maintain best practices not only because it is the right thing to do, but because doctors need to have all options available if embezzlement is detected in their practices.

The Honesty Test

Another recommendation we occasionally hear is to go “undercover” and place some extra cash in the cash drawer or other location where a suspect will discover it. The presumption is that if the cash disappears, the employee is dishonest. While we agree that if the cash overage is not reported to you it means that you have an issue, the reverse is probably not true.

We have observed that the typical embezzler steals somewhere between 2-4 percent of collections. So for a thief who is stealing thousands of dollars from you on a monthly basis who finds an errant \$50 in the cash drawer, what is the best investment they can make with the \$50? It's to hand it back to you, with the predictable result that you believe that you have a very honest employee. This gives the employee a “green light” to continue to embezzle; often with greater magnitude than before the honesty test was conducted.

Another tool we sometimes see advocated as a means of preventing embezzlement is to install surveillance cameras. There are two problems with this. First, cameras are best suited for monitoring events where the time of occurrence can be closely determined. For example, if a computer monitor disappears when the front desk is left unattended for a minute, cameras are valuable, because the video from that time can be examined. In contrast, embezzlement can happen at any time, and the amount of camera footage required to be monitored to spot it would be huge.

Second, since a thief would normally know that cameras are in use, only the dumbest of thieves will commit a visibly dishonest act on camera anyway. While we have heard of the occasional dental embezzler being caught on film, it hasn't happened in any of our investigations.

What Does Work?

So if thieves are smart, aware of the control systems in place and motivated, how do you stop them? The answer is far simpler than many dentists think. Research by the Association of Certified Fraud Examiners suggests that more than 80 percent of embezzlers act in a manner consistent with stealing.¹ This is affirmed by a 2007 study conducted by the American Dental Association that showed more than two-thirds of embezzlement was revealed by behavioral (as opposed to financial) inconsistencies.² Behavioral signs of embezzlement include things like a reluctance to take vacation, territoriality about job duties and work space, resisting the involvement of consultants or other advisers, and evasiveness when discussing practice finances.

And the good news? Behavioral monitoring is easier and far less time consuming than overinvesting time and money in cameras and financial monitoring. One of our most potent monitoring tools is our Embezzlement Risk Assessment Questionnaire, which can be found at dentalembezzlement.com. Published statistics suggest that 60 percent of dentists will eventually be embezzlement victims. We believe that underestimation of the determination and capabilities of embezzlers is a major contributing factor.

References

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Ethical Dilemma: Don't Underestimate the Embezzler