



# Practice Transitions Made Perfect™

## Newsletter Article Reprint

### Preventing Embezzlement

November 2007

Dishonesty is not a topic that dentists like to openly address but, as business owners, it must be consistently considered when looking at the profitability of the practice. Hiring the right personnel is a good first step. Establishment and monitoring of internal accounting controls are also important. Those are the obvious ones, but here are some other ideas:

1. Your employee manual should make clear that embezzlement will be grounds for immediate termination and prosecution. Some will be deterred by knowing that you have a policy to deal with it.
2. Create an audit trail by using pre-numbered patient visit slips. Keep track of those containing errors that would normally be discarded to preserve a solid audit trail.
3. Segregate billing, mail opening, data entry and bank deposit functions. A single employee controlling all of those functions is much harder to monitor.
4. Utilize duplicate bank deposit slips and compare the deposit recorded at the bank with the duplicate held at the office to confirm that all receipts were in fact deposited.
5. Make bank deposits daily and consider using a courier service to make bank deposits. Often banks provide this service for free to high volume practices, creating greater labor efficiency for highly paid staff members. Moreover, the courier service uses bonded employees to avoid loss.
6. Have all bank statements delivered either to the doctor at the practice address, or better still at his or her home address. Review them to assure that all deposits were made and to eliminate the possibility of unauthorized purchases or withdrawals.
7. Authorize only one employee to order medical and office supplies in order to limit unauthorized ordering and keep expenses within budgeted amounts.
8. Make sure that checks are used in proper numerical sequence so that a dishonest employee cannot take a check from well-down the numerical sequence, forge the doctor's name, and take money.
9. Sign each check personally and do not order or use a signature stamp. Further, determine that it is supported by an invoice for items that were actually ordered and received by the practice, comparing the check to the invoice for the correct amount.
10. Maintain a separate petty cash fund of no more than \$100. Each petty cash expenditure should be evidenced by a receipt reflecting the exact amount and purpose of the purchase, so that at all times the total of the receipts and remaining cash equals the total petty cash amount. When the petty cash is exhausted, a check is written for "cash" to replenish the fund and the receipts should be attached to the check stub for proper documentation.
11. Utilize an outside payroll service to keep confidential payroll information out of the hands of office staff. Have the doctor, or employed spouse call in payroll each month in order to avoid the possibility that a staff member "award" unauthorized pay, or create a fictitious employee whose check would be deposited into the employee's account.
12. Consider direct deposit of all employee payroll checks to keep these out of the office and assure that the checks reach each employee's checking account.

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13. Obtain fidelity bond insurance for your practice. This insurance can reimburse the practice in the event of embezzlement.
14. Keep blank checks, backup patient account data disks, backup accounts payable data disks, employee personnel files and medical records, all sensitive financial data and corporate records in a fireproof practice safe or secured (locked) filing cabinet.
15. Keep on-site drugs tightly controlled, and maintain a perpetual inventory, to prevent staff from removing drugs for personal use or giving them or selling them to others. Perform periodic audits of the inventory.
16. Perform regular audits of practice financial records at irregular intervals to deter possible embezzlements and help to deter employees from embezzling in the first place.

If the practice uses an accountant:

17. Make sure that your CPA firm prepares financial statements for your practice at least quarterly, not later than 30 days following the end of the appropriate time period. Once received, the doctor should review the practice's performance against the same time period for last year, and against last year's year-to-date performance. Question unexplained increases in any expense category, or any reduction in your practice gross collections. At the same time, have the practice's CPA review bank statements to help detect unauthorized purchases or withdrawals.
18. Have your CPA firm review financial management systems and provide a written report of his or her analysis, including recommended changes. Since your CPA has training in formal audit procedures, he or she should be able to pinpoint weaknesses and vulnerabilities in your present system and provide written recommendations for corrective actions.

If you track your own income and expenses, you can perform the same procedures and ensure that your office is reaping the financial rewards that it should for you.

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