

## **Comprehensive Checklist to Prevent Embezzlement in Small Businesses and Dental Offices | <https://nagyorthodonticacademy.com>**

Embezzlement presents a significant challenge in small businesses, especially those with fewer than 150 employees[1]. It involves the misuse or theft of company funds or property[3]. A startling 80% of embezzlement cases were reported in small businesses, as revealed by a 2016 survey from HISCOX, a specialty insurance company[1]. This prevalence is often linked to the comparatively lesser oversight in smaller businesses, which creates more opportunities for unnoticed theft by employees[2].

For small business owners, including dental practice owners, understanding and acknowledging the risk of embezzlement is vital. It emphasizes the importance of establishing strong safeguards and conducting regular reviews of financial management practices to deter and detect embezzlement.

**Embezzlement can take many forms** in a business setting, especially in small businesses where oversight might be less stringent. Here are some common types of embezzlement that businesses should be aware of:

- **Adjustment Schemes:** An employee makes false adjustments to customer accounts or procedures, collects cash for services, and then pockets a portion of the cash corresponding to the adjustment. This is often done by altering financial records or transaction histories to hide the theft.
- **Credit Card Fraud:** This involves processing unauthorized refunds or chargebacks to the embezzler's own credit card instead of the actual customer's card. The employee abuses their access to the payment processing system to divert funds to themselves.
- **Fraudulent Bank Accounts:** An embezzler might open a bank account in the business's name and add themselves as an authorized user. This allows them to deposit and withdraw funds without authorization, effectively stealing from the business.
- **Time Theft:** Also known as 'milking the time clock', this occurs when an employee falsifies their work hours. Examples include failing to clock out for breaks or lunches, or clocking in while not actually present or working. This results in the employee getting paid for time they did not actually work.

Each of these methods represents a different way in which employees can illegally divert resources or funds from a business for personal gain. To mitigate these risks, businesses should implement strict internal controls, regular audits, and foster a culture of transparency and accountability.

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One article outlines several common methods of embezzlement in dental practices. These include:

- **Zero Charge Posting:** Posting a zero balance for a patient's services and pocketing the money.
- **Falsifying Deposit Slips:** Changing deposit slips after the doctor signs them.
- **Account Adjustments:** Using courtesy discounts and pocketing the difference.
- **Setting Up Fictitious Vendors:** Creating fake businesses to deposit checks meant for supplies.

These methods highlight the need for stringent internal controls in dental practices to prevent embezzlement. The article also suggests several preventive measures, such as segregation of duties, daily audit trails, and verifying end-day reports against deposit slips.

### **How to prevent embezzlement:**

- **Financial Oversight:** Regularly review and reconcile bank statements with accounting records. Implement dual signature requirements for high-amount checks.
- **Duties Segregation:** Assign different staff members to handle and record financial transactions. Rotate these responsibilities periodically.
- **Checks and Balances:** Require multiple approvals for significant financial decisions.
- **Cash Handling:** Keep minimal cash on-site and ensure daily deposits of cash and checks.
- **Employee Screening:** Conduct thorough background checks and reference verifications for potential employees, especially those handling finances.
- **Regular Audits:** Schedule surprise internal audits and annual external audits.
- **Suspicious Behavior Monitoring:** Stay vigilant about employees' lifestyles and behaviors that might indicate embezzlement risks.
- **Financial Policies:** Document and regularly update clear financial policies.
- **Technology Use:** Employ financial tracking software with restricted access and strong password protocols.
- **Time Cards:** Monitor and double-check time card accuracy. Utilize an automatic time card stamp equipped with a camera to verify employee presence.
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- **Credit Card Refunds:** Only allow employees to process credit card refunds after your review of the refund request. Conduct weekly audits of refund/credit card chargeback reports. Assign two employees to review and cross-check these reports for accuracy and legitimacy.
- **Signature Stamps:** Avoid using a signature stamp with the owner's signature to prevent unauthorized use.
- **Mail Management:** Direct all business mail to a PO Box accessible only to the owner. This helps in maintaining control over sensitive financial documents.
- **Bank Transactions:** Restrict employees from making deposits, withdrawals, or accessing the business bank account. Keep these tasks under the direct supervision of trusted individuals or the owner.
- **Bookkeeping:** Employ an external CPA or bookkeeping firm to handle the business's financial records. This ensures an independent review of the financial transactions.
- **Random Checks:** Perform random spot checks and ask detailed questions about specific transactions or financial records. This creates an environment of accountability.
- **Specific Strategies for Dental Practices:**
- **Staff Selection:** Focus on hiring honest, reputable employees with no history or current financial struggles.
- **Software Safeguards:** Ensure only the dentist has administrative rights to practice management and accounting software. Don't give rights to employees to delete or change procedures, payment, or adjustments. Run daily reports especially for adjustments.
- **Accountability Systems:** Use remote-deposit capture and direct insurance payments to the bank.
- **Behavior Monitoring:** Be vigilant about employee behaviors that might indicate embezzlement.
- **Cash Control Practices:** Divide cash-handling duties and prepare deposit slips in duplicate.

### Internal Controls:

Ensure vigilant oversight in your dental practice, even among trusted individuals. To prevent theft and embezzlement, consider these internal controls:

- **Segregation of Duties:** Avoid allowing a single person to control all cash flow processes.
- **Daily Audit Trail:** Regularly review transactions to detect anomalies like zero balance postings.
- **Rotate Duties:** Reduce embezzlement risk by rotating financial responsibilities among staff.

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- **Verify End-day Report to Deposit Slip:** Confirm that end-of-day reports align with cash deposits. Ideally, the doctor should handle bank deposits.
- **Review Bank Statements:** Dedicate time each month to examining bank statements.
- **Require Vacations:** Mandate that all employees take their earned vacation days.
- **Performance Plans:** Reward staff monetarily when the practice achieves specific goals and increases revenue.
- **Background Checks:** Thoroughly conduct background checks on new hires.
- **Verify References:** Always check references of potential employees.

Implementing these controls helps protect both the practice and its honest staff members. It maintains focus on tasks and goals, reducing opportunities for embezzlement. Good employees should be assets, not liabilities.

Adopting these practices is a crucial step in safeguarding your business against potential embezzlement.

Implementing these practices will help in safeguarding your business against potential embezzlement.

### **References:**

- [1] For the Entrepreneur article on embezzlement in small businesses, you can find it by searching for "Why Embezzlement Most Often Occurs at Small Businesses Entrepreneur" on a search engine.
- [2] The FindLaw article about small business embezzlement can be located by searching for "What Small Business Owners Should Know About Embezzlement FindLaw".
- [3] To read about the definition of embezzlement on Small Business Trends, search for "35 Workplace Theft and Embezzlement Examples Small Business Trends".