

## Fraud Awareness in the Dental Office

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At a holiday party, Dr. Savchuk ran into an ex-patient. He inquired as to how the patient was doing with her new insurance. The patient told him they had not changed insurance. They asked Dr. Savchuk, if he got his computer system fixed.

This conversation was very strange to Dr. Savchuk, as he did not know there had been any problem with the computer system and he was sure the office manager told him this patient had left, because of changing to an insurance carrier they did not accept. He was perplexed as he drove home. Was this somehow related to his practice woes?

After buying a practice from a retiring dentist, things went well for Dr. Savchuk for the first few months. Then what seemed like a string of unrelated events left Dr. Savchuk wondering if he had made a bad purchase. First, the number of patients not paying their invoices started climbing. On the office manager/bookkeeper's advice, he started sending amounts out for collection. Then, his existing patient base started to decline steadily. Lastly, it seemed his cash balance at the bank was always near rock bottom.

Instead of making a comfortable living, he was barely scraping by and meeting the payroll for the hygienists and staff was becoming precarious. The office manager, a long term employee with over 20 years experience in the dental profession, assured him that all new dentists faced these same problems. She told him that he would work through this and over the next few years the financial rewards would begin flowing. Knowing his need to double his marketing and production efforts, she said, "Don't worry about any of the cash flow issues, I will keep them all under control."

After thinking about his meeting with the ex-patient, Dr. Savchuk decided to contact them about the whole matter. When he inquired, the ex-patient advised that although they had paid the required co-pays and other amounts, they continued to receive bills and threatening letters from the office manager. When they complained and sent in copies of the receipts, the office manager apologized and said that the computer system had been down and created some billing problems. She would fix everything. A few months later, he had gotten a call from a collection agency over the same amounts. He had denied those charges, but thought that continuing with Dr. Savchuk would not be the best course of events even after the collection agency finally stopped calling.

Dumb founded, Dr. Savchuk called in a CPA to review the billing, collections, bank account and insurance records. After an initial sample of cases was analyzed, the accountant found numerous weaknesses in the internal control system as well as serious errors and irregularities in the limited sample of records. The CPA recommended that Dr. Savchuk retain a forensic accountant and/or fraud examiner to determine the extent of any problems and to determine if any funds were missing.

Dr. Savchuk followed the CPA's advice and called in a forensic accountant. After reviewing records and interviewing the staff, including the office manager, the forensic accountant had pieced together an all too often story.

After the retiring dentist had retired, the office manager, who had always been closely supervised by the retiring dentist, was left entirely in charge of the bank account, writing checks, balancing the account, collecting money, insurance submissions, accounts receivables, aging reports etc. The office manager, felt that she should have been given a bigger raise when Dr. Savchuk took over.

At the same time, her son had experienced some difficulties with the law and she had run up some large legal expenses on his behalf. Initially she said that she had taken some of the cash co-pays to help her make ends meet for the month with the intention to return them later. As her cash needs expanded, she began collecting insurance reimbursement checks and cashing them. Finally, she began submitting invoices from non-existent companies for phantom goods and services.

In some cases, patients would get bills and just pay them without question, thus making up some of the funds taken. Later she figured out that if she sent amounts to collections, it was typically easier for patients to just pay them, than to find all the records to dispute the collection efforts. Again this made up some of the shortfall.

When patients complained or had their documentation in order, she would simply apologize to them with an excuse about insurance company reimbursement issues or billing computer problems. However, patients often would be upset about the collection efforts or billing problems and find another dentist, leading to the decline in patients.

So what could Dr. Savchuk have done to perhaps stop this theft before it started or minimize its impact? A few of the following steps could have made a tremendous difference.

- a. Check candidates' references and job histories. In many cases employees who steal from one employer will do so again. Read between the lines in the references you are given by prior employers.
- b. Review individual expenses. Regularly review expenditures and accounts. Question any expenses which seem odd, out of line, or that you simply do not understand. These reviews may catch misconduct early.
- c. Prohibit pre-signed checks and signature stamps. All documents should require review by the appropriate parties before being signed. Look at back up supporting documentation and don't blindly sign authorizations or checks.
- d. Enforce job rotation and vacation policies. Having employees take at least five consecutive days off allows someone else to come in and do their job while checking their work.
- e. Bond employees. Bonding helps companies, because they may be reimbursed for any misconduct and they then can prosecute the employees. In addition, bonding companies typically require background checks and other due diligence on employees before they will write a bond. This is another means to weed out potentially problem employees on the front end.
- f. Issue receipts for cash collected and match the cash receipts against the cash deposited. Cash can be the easiest way to steal, it is important to monitor all cash flow.

After interviewing the office manager, she confessed and expressed a willingness to make restitution. Dr. Savchuk was able to recoup about 70% of the direct dollars taken by the employee. However, the result of her actions had caused him to lose many long term patients and caused a rift with many other patients subjected to unwarranted billing problems and irregularities.

As of now, Dr. Savchuk's practice has begun growing again and he is earning a fair living. He is not so naïve any longer, but he is the wise and prudent master of his financial house.

Andrew Runge, CPA, CFE, CVA, MBA, ABV, has over 17 years of experience in insurance services, forensic accounting/investigation, economic damages and business valuations. He has consulted on hundreds of economic damage, lost income, bodily injury, wrongful death, employee dishonesty, construction and other insurance claims exceeding \$200 million in the United States and abroad. Andrew has prepared numerous business valuations of privately held companies as a whole and as partial interests. He has also provided forensic accounting, fraud investigation and litigation support services including assistance in case analysis, preparation for trial and expert witness testimony. He has experience with construction, insurance, manufacturing, computer, biotechnology, medical, hotel and hospitality, farming and animal husbandry, retail, mining and other industries.

If you have any questions regarding your practices or how you can reduce the likelihood of fraud in your office, please contact Andrew Runge at 800-77-1065 or [arunge@dentalcpas.com](mailto:arunge@dentalcpas.com) to discuss.