Fraud and Embezzlement
Follow the Red Flags



START
One or more red flags are observed

INQUIRY
Is there an alternate and legitimate explanation for each red flag?

YES
Fraud is unlikley

REASSESS
Daily, Weekly or Monthly (depending on "severity" each red flag)

Return to **START**

NO
Fraud may be likely

DIAGNOSE
Perform diligence (Diagnostic Fraud Examination)

FRAUD NOT FOUND

WHAT HAPPENED?
Identify and remediate the cause of red flag false positive

FRAUD IS CONFIRMED

TERMINATE EMPLOYMENT?
(if suspect still working in practice)

CONDUCT FORENSIC INVESTIGATION?

RECOVERY OF FUNDS?

Employee Dishonesty Insurance Claim

Civil Litigation claim against perpetrator or a liable third party

CRIMINAL PROSECUTION?

Notify Police
Notify Prosecution

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Follow the Red Flags: How to Read the Chart

The flowchart on page 1 sets out the steps a practice owner should follow when a red flag appears. The notes below explain each box in the order it appears on the chart.

Understanding red flags

A red flag is a warning sign that research has linked to employee dishonesty. On its own, a red flag does not prove that theft has occurred. **Behavioral** red flags relate to an employee's lifestyle, conduct, and work habits. **Statistical** red flags are unexplained discrepancies in practice data, such as unusual adjustments, write-offs, refunds, payment reversals, or deposits that do not match the day sheet. Other behavioral flags include addiction, past legal or employment problems, complaints about pay, and refusal to take vacations.

Behavioral red flag	Share
Living beyond means	40%
Financial difficulties	34%
Wheeler-dealer attitude	20%
Unwilling to share duties	19%
Divorce or family problems	17%
Suspicious or defensive	14%

The table lists the six behavioral red flags seen most often in confirmed embezzlement cases. At least one of them was present in roughly 85% of those cases.

These percentages come from employees who were caught. They do not measure the likelihood that a particular employee is stealing, and most employees who display one of these traits are honest. Use a red flag to decide where a closer look is warranted.

Walking the chart

START: One or more red flags are observed

Something has drawn your attention. It may be an employee's behavior, a patient complaint about a balance, or a report that will not reconcile. Record what you observed, along with the date and the source. Hold off on any action until the inquiry step is complete.

INQUIRY: Is there an alternate and legitimate explanation for each red flag?

Each red flag needs a reasonable explanation. Work through two steps.

- **Apply skepticism.** Consider how plausible the innocent explanation is and how strong the evidence behind the red flag is. A new car paid for by a documented family inheritance carries far less weight than one attributed to an unverifiable lottery win. Likewise, a wage garnishment says more about financial pressure than a remark overheard in the staff room.
- **Conduct a quiet inquiry.** Check records that can confirm or contradict the explanation, without involving the employee. Useful sources include the building alarm log with its arm and disarm times, the practice management audit trail, deposit records, and the schedule. An employee who arrives early on a predictable routine may have an innocent reason. Irregular after-hours visits, or stays of more than 10 to 15 minutes after the rest of the team has left, call for closer review.

Avoid confronting, accusing, or dismissing the employee during this step. Any of those actions can alert the person, prompt the deletion or alteration of records, and expose the practice to a wrongful dismissal claim.

YES: Fraud is unlikely, so REASSESS and return to START

When every red flag has a credible and verified explanation, fraud is unlikely and no further action is required at this time. Continue to monitor on a schedule that reflects how serious the original flag was. A significant statistical discrepancy may warrant a daily check, while a minor behavioral concern can be reviewed weekly or monthly. Return to START if the flag recurs or a new one appears.

Follow the Red Flags: How to Read the Chart

NO: Fraud may be likely, so DIAGNOSE

When a red flag remains unexplained, or suspicion continues after the inquiry, the next step is a **Diagnostic Fraud Examination**. This confidential forensic review of practice management data and business records takes place without alerting staff. Its purpose is to determine whether evidence of theft exists and, if it does, to provide a preliminary estimate of the amount, the method, and the time period involved.

Practice management audit trails record which user performed each action and when. Preserve them early, before anyone has a reason to tamper with them.

FRAUD NOT FOUND: What happened?

If the examination finds no evidence of theft, the practice still needs to understand what caused the red flag. Frequent causes include inconsistent posting habits, gaps in staff training, software settings, weak deposit procedures, and reconciliations that have no assigned owner. Correcting the cause prevents the same false alarm from recurring.

FRAUD IS CONFIRMED: Two parallel decisions

Confirmation of theft leads to two decisions, which are usually made at the same time.

- **Terminate employment?** If the suspect still works in the practice, the diagnostic findings supply the evidence needed for a termination for cause. Plan the timing with care. Before the termination meeting, preserve the data and secure passwords, keys, alarm codes, and banking access.
- **Conduct a forensic investigation?** The diagnostic establishes that theft occurred. A full forensic investigation documents the entire loss, transaction by transaction, to the standard expected by insurers, courts, and police. Its findings support each of the options shown on the next level of the chart.

RECOVERY OF FUNDS?

- **Employee dishonesty insurance claim.** Many practices carry employee dishonesty (fidelity) coverage, frequently within a business owner's policy. Review the policy promptly, paying attention to notice deadlines, coverage limits, and proof of loss requirements. Expect the insurer to ask for documentation of the loss.
- **Civil litigation.** A civil claim may be filed against the perpetrator or against a third party whose conduct contributed to the loss. Civil recovery can also pursue amounts that exceed the insurance limit.

CRIMINAL PROSECUTION?

A report to police allows criminal charges to proceed. If the accused is convicted, the court may order restitution. Police services and prosecutors have limited capacity for complex financial cases, and a clear, well-organized forensic report improves the likelihood that a file will advance. Many practice owners pursue recovery and prosecution together.

Summary

Each red flag should receive either a verified explanation or a diagnostic examination. Following the steps in order protects honest employees, preserves evidence, and keeps every recovery option available to the practice owner. A free, anonymous Red Flag Self-Assessment is available at www.dentalfraudbusters.com.

This guide provides general information and does not constitute legal advice. Consult legal counsel before terminating an employee, filing an insurance claim, or starting legal proceedings.