Embezzlement is one of the most common white collar crimes in history. The current research brief will discuss embezzlement in relation to the “Great Recession” economic crisis of 2007 to the present. Recent reports are discussed that suggest embezzlement rises during economic hardship. FBI arrest data is also discussed and basically supports this assertion. Last, common fraud prevention techniques are listed.

Embezzlement is the fraudulent taking of personal property with which one has been entrusted.¹ The current brief will discuss the rate and motivations of embezzlement during the financial crisis of late 2007 through the slow recovery which continues to the present.

Background

Theft by employees is one of the most prevalent and costly problems faced by today’s business, either private or public. It includes, but is not limited to, “the removal of products, supplies, materials, funds, data, information, or intellectual property.” The estimated annual costs of all forms of embezzlement are up to $400 billion.²

The ways that an employee can steal from an organization depend on a number of factors, including that type of money or properties that have been entrusted to the individual, and the access to company funds that the individual might be allowed because of their position. For example, a department store cashier might steal from a cash register, fail to ring up purchases, or take merchandise from storage rooms or receiving areas. Other employees with more access within the company might cheat on expense accounts, or misappropriate funds through billing, inventory, or payroll schemes.

While some research has found that theft by employees is typically a solitary event, the influence of co-workers on theft behavior has been shown to have an enormous impact on such deviant behavior. In his classical work on theft, Mars³ not only shows how the mores of theft are accepted within a particular group, but how the group works together to create a system of theft that is mutually beneficial to all workers involved. A strong argument is also made for the effects of informal sanctions; those that did not comply with the theft culture were often ostracized and pressured to leave the job.
One of the difficulties in developing policy to combat embezzlement and other types of employee theft is that the rationale behind the offenses can vary greatly. While a large number of crimes can be attributed to opportunity or the economic need of the offender, loss incurred through the actions of employees can also be a response to poor working conditions, dissatisfaction with management or compensation, or pressure from co-workers. The subsequent measures that organizations need to take therefore include not only deterrence-based security technology, but also a comprehensive program of proactive initiatives to ensure employees are generally satisfied with their environments.4

**Economic Motivators**

As mentioned, economic need can be a primary motivator for an employee to embezzle from their company. During economic downturns, employees often feel pressured and unappreciated by their company. Whether rational or not, resentment towards the organization and/or fellow employees can contribute to embezzlement of varying levels. A 2009 study conducted by the Association of Certified Fraud Examiners (ACFE) found that occupational fraud was on the rise, mainly due to layoffs which created holes in organizations' internal control systems. In that report, over 55% of fraud experts reported that fraud has slightly or significantly increased in the previous 12 months. In addition, nearly half of respondents stated that the increased financial pressure was the biggest contributing factor to the increase in fraud. James Ratley, President of the ACFE stated the results succinctly “Loyal employees have bills to pay and families to feed. In a good economy, they would never think of committing fraud against their employers. But especially now, organizations must be vigilant during these turbulent times by ensuring proper fraud prevention procedures are in place.”5

Other interesting numbers to consider are the FBI arrest data. When we consider the “Great Recession”, which ran from December of 2007 to June of 2009, the FBI numbers are very telling. Table A. below shows arrests for embezzlement from 2005 through 2009.7

Taking a look at 2005, we can see that nearly 19,000 people were arrested for embezzlement during what many believe to be the height of the housing bubble. However, in 2006, there were several economists reporting that the inflated housing market and economy in general could experience a significant contraction. The arrests numbers for 2006 ticked up to over 20,000. This trended continued in 2007 and 2008 at 22381 and 21402, respectively. The sustained increase during those years was in step with the economic activity of increased unemployment, bank losses, and significant foreclosures. Finally, looking at 2009, the arrest number dips to below 18,000, which is a 16% reduction in the number of arrests. Economically in 2009, there were no surprises, the recession continued and was declared over in June of that year, with the recovery slow to gain steam. Again, the arrest data reflect the economic conditions during 2009 with the economy maintaining pace, albeit sluggish, and the arrest data fell to its lowest levels in over 5 years.

**Table A. Embezzlement Arrests**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>18970</td>
</tr>
<tr>
<td>2006</td>
<td>20012</td>
</tr>
<tr>
<td>2007</td>
<td>22381</td>
</tr>
<tr>
<td>2008</td>
<td>21402</td>
</tr>
<tr>
<td>2009</td>
<td>17920</td>
</tr>
</tbody>
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**Opportunity**

Having discussed one of the most common motivators, let’s take a look at another aspect of the puzzle: opportunity. In its 2010 Report to the Nations, the ACFE found that small organizations, especially those in financial and public/government sectors were most likely to be at risk for occupational fraud. These types of organizations are most vulnerable because they often have the fewer anti-fraud controls than larger organizations.8 Organizations that initiated internal controls and
anti-fraud policies were found to experience less occupational fraud and subsequently significantly fewer monetary losses.

Even with small companies especially at risk, large companies should be on the look-out as well. A report focusing on large companies by the Institute for Corporate Productivity (I4CP) found similar results as the ACFE. The study found that 27% of all employees at large corporations with 10,000 or more workers stated that crime in the workplace has increased since the economic crisis.\(^9\) Even in larger companies with multiple personnel overlooking policy and procedure, flaws in routine fraud prevention can be spotted, especially with a majority of embezzlers working in accounting or a financially related position. Jay Jamrog, Senior Vice President of I4CP stated that “while much of their [company’s] attention is probably focused externally on threats to growth in their market, they better also be cognizant that business threats can originate from the inside as well.”

**Getting Caught**

While advancements in white collar crime detection have risen in popularity in recent years, the majority of embezzlers are still caught by surprise and not by an internal audit. However, this doesn’t always have to be the case. Companies that have been the victim of embezzlement consistently have the following traits in common:\(^{10}\)

1. Weak internal controls
2. Too much trust in employees
3. Poor management oversight
4. Lack of financial audits
5. Lack of independent checks on bank and credit statements

To conclude, embezzlement is one of the classic white collar scams in which an employee of a business can steal money from a trusting organization. As we have discussed, economic recessions can provide the perfect motivation to turn an otherwise trusted employee into the company’s number one enemy. However, with unscheduled internal audits coupled with strong fraud prevention techniques, companies can curb the incidence of occupational fraud.

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Primary Author
Jason Boone
NW3C Research Associate
jboone@nw3c.org