



CONTACT:

Research Section
5000 NASA Blvd., Suite 2400
Fairmont, WV 26554
Ph: 877-628-7674
Fax: 304-368-2359
Web: www.nw3c.org

Embezzlement/Employee Theft (March 2016)

The Federal Bureau of Investigation (FBI) defines embezzlement as, "the unlawful misappropriation or misapplication by an offender to his/her own use or purpose of money, property, or some other thing of value entrusted to his/her care, custody, or control."¹ Originally, there was no crime of embezzlement under the **Common Law**. It is a statutory crime that evolved from **Larceny**. Whereas larceny requires a felonious trespassory taking of property at the outset, embezzlement is a wrongful appropriation subsequent to an originally lawful taking. What distinguishes embezzlement from other types of theft is the violation of financial trust between the owner of the money or property, and the offender. Embezzlement laws first emerged in England as a response to the inadequacies of larceny statutes which required that property be taken from another's possession.² The first recorded embezzlement took place in 15th Century England "Carrier v. Sheriff of London." In this case, the agent enlisted to transport bulk wool from the market to the docks, would break open the containers and help himself to a portion. The case was decided in 1473 in the Star Chamber courts.³

How It Happens

Theft by employees ranks high for the most prevalent and costly problems faced by today's business organizations, either private or public. The crime includes, but is not limited to, "the removal of products, supplies, materials, funds, data, information, or intellectual property."⁴

The methods utilized by an employee to embezzle depends on a number of factors such as the type of money or properties entrusted to the individual, and the access to company funds accessible by the position. For example, the duties of a cashier require honest management of the register, recording accurate purchases, and securing inventory in receiving areas or storage rooms; all of which present opportunities for crime. Other employees with companywide responsibilities might cheat on expense accounts, or misappropriate funds through billing, inventory, or payroll schemes.⁵

Since partners in crime can increase opportunities for conflict or capture, many offenders act alone;⁶ however, the influence of co-workers on theft behavior can have an enormous impact on such deviant behavior. In his classical work on theft, Gerald Mars discusses how the behaviors of theft can become an accepted practice within any group, and shows how a group can work together to create a system of theft that is beneficial

to the workers.⁷ A strong argument is also made for the effects of informal sanctions; whereby those that did not comply with the theft culture were often ostracized and pressured to leave the job.⁸

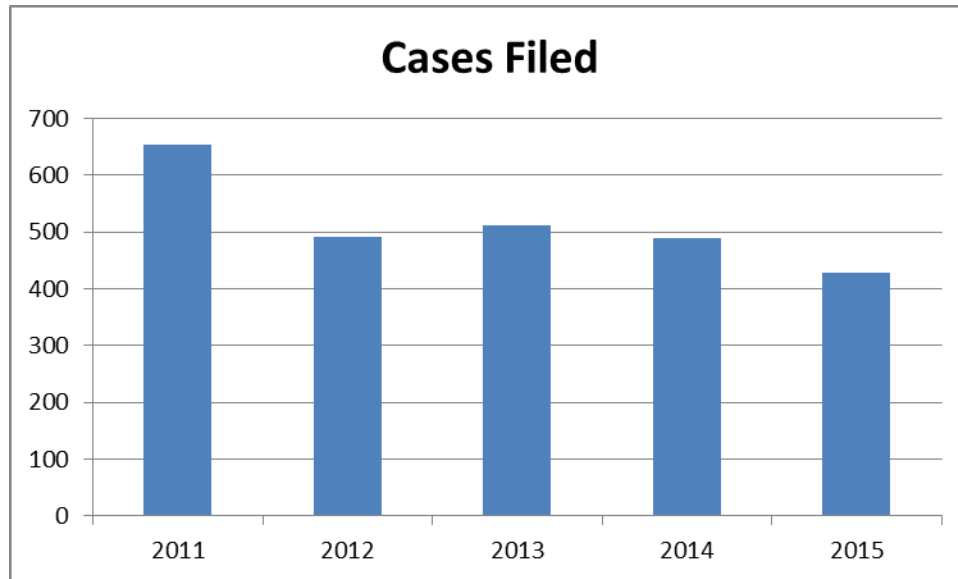
The complex rationales which are exploited to commit a multitude of crime types make it difficult for management to develop internal company policies that reduce opportunities. While a large number of crimes can be attributed to opportunity⁹ or the economic need of the offender.¹⁰ Loss incurred through the actions of employees can also be a response to poor working conditions, dissatisfaction with management or compensation, or pressure from co-workers.¹¹ Therefore, the subsequent measures that organizations pursue, must include deterrence-based security technology as well as a comprehensive program of proactive initiatives to ensure employees are generally satisfied with their workplace.

Costs and Statistics

While many think of the workplace as insulated from the questionable behavior found elsewhere in society, the statistics can be quite alarming. In 2013, it is estimated that global losses due to employee theft totals to about \$3.7 trillion.¹² Many corporate security experts estimate that as many as 25-40 percent of all employees steal from their employers. This makes theft by employees two to three times more costly than all of the nation's Type I index crimes combined, and accounts for approximately 30 to 50 percent of all business failures.¹³ In addition, it is estimated that as many as three-quarters of all employees steal from their employers at least once¹⁴ and some employees may engage in theft on a regular basis.¹⁵

Embezzlement is technically a form of larceny and as such does not enjoy a category of its own in the Uniform Crime Reports so measurement of the number of occurrences is somewhat difficult and likely to vary from source to source. Several sources of court statistics offer measures of 'cases commenced' and 'arrests for embezzlement' however, these sources are not often current. The U.S. Courts maintain statistical breakdowns of cases filed which although not a comprehensive data set of all occurrences of embezzlement, will help to illustrate the nature of the crime, the relative frequency and the trends of the offense over the past five years. It is important to remember that not all occurrences of embezzlement are reported and not all of those reported are ultimately handled in the federal courts system. Depending on a number of factors, a particular embezzlement case might be heard in state courts or it might be heard at the federal level. Unfortunately, embezzlement is not a category that appears in the uniform crime reports so state based information is not available without doing a comprehensive state by state statistical analysis. Federal statistics however may help illustrate the gravity of the problem and trends over time. The U.S. Courts system maintains a number of statistical reports pertaining to a wide array of issues before them and based on information obtained from that report, the following chart was developed.¹⁶ As with all such statistical comparisons, such visual representations may not tell the entire story.

The apparent downward trend could be due to any of a number of factors, the improving economy following the most recent recession, increasing prosecutorial pressure on this particular type of crime, improvements in security measures or any combination of the above.



A survey by Bullard and Resnick offered reasons why companies do not involve the criminal justice system in cases of employee theft. Of the respondents, 70 percent said they did not report some crimes because the loss was considered to be minimal. There were

- 54 percent who sought restitution in cases that were handled internally
- 59 percent stated that insufficient evidence was their reason for not pursuing
- 31 percent did not report crimes because of avoidance of unwanted publicity
- 26 percent wanted to avoid the trouble and expense
- 23 percent noted problems within the criminal justice system¹⁷

Employee theft does not occur in a vacuum, but is often found in conjunction with high rates of other workplace deviant behavior.¹⁸ The financial impacts of such behavior, when coupled with the indirect costs of higher levels of stress, increased absenteeism, higher turnover, raised insurance premiums, increased number of lawsuits, and lower morale make workplace deviance a problem for businesses of all sizes that can reach an annual price tag hovering in the billions of dollars.¹⁹

The widespread infusion of technology in the workplace has dramatically increased costs for associated offenses. Not only can technology facilitate larger transactions that are illegal in nature, but when coupled with poor controls it can be manipulated to make detection much more difficult. Furthermore, the types of theft in the workplace appear to be changing. In addition to cash, materials, and merchandise, employees are

increasingly finding value in company-owned software and intellectual property. As of 2015, it is estimated that employee theft accounts for 43% of lost revenue equaling about \$18 billion.²⁰ For example, borrowing software from work for personal use, accounts for some of the \$33 billion lost to software piracy worldwide.²¹

Examples/Case Studies

- According to an embezzlement investigation, a woman who worked for more than 30 years at the Schuylkill County, PA will face a year in prison. She is charged with embezzling \$452,186 from October 2007 to May 2014 from the organization. Under the terms of her guilty plea, the suspect was required to cooperate with authorities and make restitution by forfeiting \$452,186 as well as giving up her interests in residence and county retirement account. The retirement amounted to about \$105,000, which includes \$57,600.88 in contributions and \$47,603.90 in interest.²²
- A 44 year old woman from Marlboro, Maryland, pleaded guilty to federal embezzlement charges for more than \$5 million from a former employer, the Association of American Medical Colleges, a non-profit organization. As part of the plea agreement, the defendant agreed to criminal forfeiture and restitution in the amount of roughly \$5.1 million. She also faces between 41 to 51 months of incarceration. Her duties included processing invoices from the association's vendors. From July 15, 2005 through July 1, 2013, the defendant submitted false invoices to the Association of American Medical Colleges in the name of three entities named The Brookings Institution, FCI, and the University Health System Consortium, also known as UHC. In doing so, she was seeking payment for services that were never provided, and without the above organization's knowledge or approval for her to receive payment.²³
- A Waltham, Massachusetts man who had been charged with using his Harvard University employee credit card for more than \$80,000 in personal purchases plead guilty in Middlesex Superior Court in February 2016. The 45-year-old named Shawn Bunn was sentenced to two years in prison and ordered to pay \$80,000 in restitution to Harvard for charges of larceny, false entry in corporate books, and forged documents. "For four years, the defendant used Harvard funds for his own purposes," said District Attorney Marian Ryan. "Instead of Harvard funds enriching the educational experience of students, as intended, the defendant chose to make personal purchases." Bunn worked with the computer system for 17 years as an employee. It was during that time that he was given an employee credit card for the purpose of making purchases for the lab. University policy required that Bunn submit a receipt of all purchases over \$75 and explain the nature of the purchases. The sentence served was three months followed by probation for 10 years.²⁴

- An investigation into Florida's Brevard Public Schools inventory has resulted in an arrest of Dale Gunther, a 55-year-old transportation specialist with the school district. His arrest occurred in February 2016 after a meeting with the school board regarding suspicious purchases. Brevard Sheriff Wayne Ivey states, "We recovered a significant amount of stolen property. Property that was purchased through the fleet was used and misappropriated for his own use or sold." The total value of the goods was about \$10,000. The items included everything from synthetic oil for vehicles, degreaser, parts for a Jeep Wrangler, and even a box tent for a Ford F-150 truck. One item billed to the district included a steering column for a Harley Davidson motorcycle. "Every time we peel back a layer of onion, there's more there," said Ivey, "...To me, it doesn't matter whether it's a hundred thousand or five dollars. When you're stealing from the education system, you're stealing from our kids."²⁵
- An executive of Eagle Global Logistics Incorporated, a KBR subcontractor in Iraq, pleaded guilty to bribery and lying to federal investigators in an attempt to conceal a fraud that involved several over billings while flying freight into Iraq. Made between November 2003 and July 2004, the overcharges amount to \$1.1 million. At the center of the investigation are five KBR employees, and at least one other Eagle employee. Another Eagle executive has already been convicted. Documents show that the KBR employees received \$34,000 in bribes to "obtain or reward favorable treatment in connection with the shipping contract."²⁶
- Soka University of America, located in California, was fleeced for \$1.7 million in an embezzlement conducted by its former finance director and chief investment officer, Kiyoshi Hatanaka. Hatanaka pleaded guilty to "federal charges of embezzling Soka's funds over the course of seven years and funneling the money through sham Soka bank accounts that he created."²⁷

Prevention²⁸

Be vigilant for warning signs of employee fraud or embezzlement:

- An employee who refuses to take vacation time can occur because they are afraid that theft will be detected while they are absent
- An employee who continually works overtime
- An employee who wants to take work home
- Excessive personal spending, like a new car or trips, by an employee whose income cannot support this kind of spending
- Petty cash disappearing quickly
- Extravagant expenses during employee travel
- Employees with personal vendor relationships (Keep watch for employees who often lunch with vendors, or who are related to hired contractors)
- Depleting office supplies at unusual rate

Knowing the signs of employee theft will not prevent offenses alone, an employer must also be able to take steps such as:

- Deposit daily and reconcile monthly: loose cash is too tempting, and reconciling the bank statement each month helps catch any irregularities early. Keep track of petty cash. The money in a cash drawer can prove to be too tempting for some employees. Require that all petty cash transactions have a petty cash slip or log to support them, and require two signatures on petty cash refill checks.
- Give employees separate financial duties otherwise known as “checks and balances”: For example, the employee who writes the checks should not be the employee who reconciles the bank statement or cashes the check.
- Manage by walking around: let employees know that you are keeping an eye on things around the company. Do not go searching through employee lockers or personal items; just be watchful for changes or unusual activity.
- Make sure that employee travel is supported by appropriate paperwork.

The Response/Current Efforts

Traditionally, most embezzlement matters were handled internally, if even acknowledged, because organizations did not want the public stigma of being known as an “easy target” or a company that harbored embezzlers and other types of dishonest employees. Companies may not want their investors feeling that their stock is not a sound investment due to employee theft. Some organizations viewed theft as a cost of doing business. In recent years, companies have stepped forward and begun to address the reality that dishonest employees are causing significant economic losses.

Studies have shown increases in the use of deterrence and apprehension strategies, and an increase in the severity of sanctions brought against offenders. One study, conducted by Foley & Lardner, LLP, found that the average cost of compliance for private firms was \$50,000, whereas public companies reported that losses were close to \$3 million.²⁹ These expenditures for compliance are from investments in security technology and loss prevention personnel.³⁰ Additionally, over 40 percent of employees caught stealing are referred for prosecution and 20 percent are required to make some form of restitution.³¹ So while the problem of employee theft still exists within organizations, some employers have taken important steps towards acknowledging and combating the problem.

“For More Information” Links

- Small Business Administration’s web page on embezzlement & employee theft – <https://www.sba.gov/blogs/employee-fraud-what-you-can-do-about-it>
- Association of Certified Fraud Examiners – <http://www.acfe.com/>
- Security Management Online (The periodical of the American Society for Industrial Security) – <http://www.securitymanagement.com>
- FBI study of White Collar Crime UCR data - https://www.fbi.gov/stats-services/about-us/cjis/ucr/nibrs/nibrs_wcc.pdf

Maintenance and revisions: NW3C research department. Current update prepared by Nicole Berdar, NW3C Research Intern.



This project was supported by Grant No. 2015-BE-BX-0011 awarded by the Bureau of Justice Assistance. The Bureau of Justice Assistance is a component of the Office of Justice Programs, which also includes the Bureau of Justice Statistics, the National Institute of Justice, the Office of Juvenile Justice and Delinquency Prevention, the Office for Victims of Crime, and the SMART Office. Points of view or opinions in this document are those of the author and do not necessarily represent the official position or policies of the U.S. Department of Justice. The National White Collar Crime Center (NW3C) is the copyright owner of this document.

©2016. NW3C, Inc. d/b/a the National White Collar Crime Center. All rights reserved. The National White Collar Crime Center (NW3C) is the copyright owner of this white paper. This information may not be used or reproduced in any form without the express written permission of the NW3C.

Endnotes

¹ Federal Bureau of Investigation. (2001.) Crime in the United States 2000. Washington, D.C.: Federal Bureau of Investigation. Retrieved February 11, 2016 from, <https://www.fbi.gov/about-us/cjis/ucr/crime-in-the-u.s/2010/crime-in-the-u.s.-2010/offense-definitions>

² Albanese, J. (1995). *White collar crime in America*. Englewood Cliffs, NJ: Prentice Hall.

³ Possession and custody in the Law of Larceny, *The Yale Law Journal*

Vol. 30, No. 6 (Apr., 1921), pp. 613-617 located at;
http://www.jstor.org/stable/789232?origin=crossref&seq=1#page_scan_tab_contents

⁴ Greenberg, J. (1995). Employee theft. In *Blackwell encyclopedic dictionary of organizational behavior* (pp. 154-155). Cambridge, MA: Blackwell

⁵ Wells, J. (1997). *Occupational fraud and abuse*. Austin, TX: Obsidian Publishing Company.

⁶ Loss Prevention Systems. (2014, August 22). *A Solitary Man- Internal Theft*. Retrieved March 1, 2016, from, <http://www.losspreventionsystems.com/a-solitary-man-internal-theft/>

⁷ Mars, G. (1974). Dock pilferage: A case study in occupational theft. In P. Rock & M. McIntosh (Eds.), *Deviance and social control* (pp.209-228). London: Tavistock.

⁸ Hollinger, R., & Clark, J. (1982). Formal and informal social controls of employee deviance. *Sociological Quarterly*, 23, 333-343.

⁹ Felson, M. (1987). Routine activities and crime prevention in the developing metropolis. *Criminology*, 25, 911-931.

¹⁰ Cressy, D. (1959). *Other people's money*. New York: The Free Press.

¹¹ Hollinger, R., & Clark, J. (1983). *Theft by employees*. Lexington, MA: Lexington Books; Tucker, J. (1989). Employee theft as social control. *Deviant Behavior*, 10, 319-334; Mars, G. (1974). Dock pilferage: A case study in occupational theft. In P. Rock & M. McIntosh (Eds.), *Deviance and social control* (pp.209-228). London: Tavistock.

¹² ACFE. (2014). *Report to the Nations on Occupational Fraud and Abuse*. Retrieved March 1, 2016, from, <http://www.acfe.com/rtnn/docs/2014-report-to-nations.pdf>

¹³ Bullard, P. & Resnick, A. (1983). SMR forum: Too many hands in the corporate cookie jar. *Sloan Management Review*, 24, 51-56.

¹⁴ McGurn, J. (1988, March 7). Spotting the thieves who work among us. *Wall Street Journal*. p.16.

¹⁵ McGraw-Hill/London House & National Food Service Security Council. (1996). *Second annual survey of restaurant and fast food employees*. Rosemont, IL: McGraw-Hill/London House.

¹⁶ U.S. District Courts—Criminal Defendants Commenced, by Offense, During the 12-Month Periods Ending June 30, 2011 Through 2015, located at; [file:///C:/Users/gcliff/Downloads/d02djun15_0%20\(2\).pdf](file:///C:/Users/gcliff/Downloads/d02djun15_0%20(2).pdf)

¹⁷ Bullard, P. & Resnick, A. (1983). SMR forum: Too many hands in the corporate cookie jar. *Sloan Management Review*, 24, 51-56.

¹⁸ Hollinger, R., & Clark, J. (1983). *Theft by employees*. Lexington, MA: Lexington Books; Gruber, J. (1990). How Women Handle Sexual Harassment: A Literature Review. *Social Science Research*, 74, 3-9; Northwestern National Life Insurance Company. (1993). *Fear and violence in the workplace*. Milwaukee, WI: Northwestern National Life Insurance Company.

¹⁹ Emshwiller, J. (1995, October 2). Small business is the biggest victim of theft by employees. *Wall Street Journal*, p.B2; Millman, N. (1997, January 16). FBI informant Whitaker indicted. *Chicago Tribune*, p.16.

²⁰ Fisher, Anne. (2015, January 26). *U.S. Retail Workers are No.1... in Employee Theft*. Retrieved March 1, 2016, from, <http://fortune.com/2015/01/26/us-retail-worker-theft/>

²¹ Business Software Alliance. (2000). *1999 global software piracy report*. United States: Business Software Alliance.

²² Gilger, M. *Former County Employee Forfeits Retirement Account as Restitution for Embezzlement*. Retrieved February 18, 2016, from <http://republicanherald.com/news/former-county-employee-forfeits-retirement-account-as-restitution-for-embezzlement-1.2008644>

²³ FBI (2013, November 23). *Former Employee Pleads Guilty to Embezzling More Than \$5.1 Million from Non-Profit*. Retrieved February 23, 2016 from, <https://www.fbi.gov/washingtondc/press-releases/2013/former-employee-pleads-guilty-to-embezzling-more-than-5.1-million-from-non-profit>

²⁴ WCVB. (2016, February 29). *Ex-Harvard Employee Pleads Guilty to \$80,000 theft*. Retrieved March 1, 2016, from, <http://www.wcvb.com/news/exharvard-employee-pleads-guilty-to-80000-theft/38261628>

²⁵ Bonanno, C., Gallop, J.D., (2016, February 16). *Second Brevard Schools Employee Arrested in Theft Ring*. Retrieved March 1, 2016, from, <http://www.floridatoday.com/story/news/2016/02/10/breaking-second-school-district-employee-arrested/80190356/>

²⁶ Glazer, James. (2007, Jul 21.) Bribery network to bloat war costs alleged. *The New York Times*. Retrieved July 24, 2007, from http://www.nytimes.com/2007/07/21/washington/21contract.html?_r=2&adxnnl=1&oref=slogin&adxnnlx=1185290967-Sga61G5BMULeRTHJ3RDHtQ

²⁷ United States Attorney's Office Central District of California, Department of Justice. (2008) Ex-finance director of Soka University of America pleads guilty in \$1.7 million embezzlement. Retrieved June 19, 2008 from <http://losangeles.fbi.gov/dojpressrel/pressrel08/la061108usa.htm>

²⁸ Murray, J. (2015, November 11). *Detecting and Preventing Employee Theft and Embezzlement*. Retrieved February 25, 2016 from, <http://biztaxlaw.about.com/od/employeelawandtaxes/f/Protect-Your-Business-From-Employee-Theft-And-Embezzlement.htm>.

²⁹ Hollinger, R., Lee, G., Kane, J., & Hayes, R. (1998). *The 1998 national retail survey*. Gainesville, Florida: University of Florida Press.

³⁰ Power, R. (2000). *2000 CSI/FBI computer crime survey*. San Francisco, CA: Computer Security Institute.

³¹ Marasco, J. (2007). *Stonebridge. Employee Fraud: How Much Should You Spend to Prevent it?* Retrieved March 1, 2016, from, <http://stonebridgebp.com/library/fraud-forensics/employee-fraud-how-much-should-you-spend-to-prevent-it>