Embezzlement by definition is a crime committed by someone in a position of trust.

Herb Carlson

Only a small percentage of embezzlers are hardened criminals. In 20 years of investigating white-collar crime as a forensic accountant at Charleston-based Pratt-Thomas Gumb & Co. P.A., Ron Strickland came across only one individual who intended to steal when he took the job, and that person's theft was paying his restitution in another state.

Interesting statistic: About half of those who commit fraud earn less than $50,000 a year, and most have worked for the victim organization at least five years, according to the Association of Certified Fraud Examiners. Almost half of them are women.

Who are the targets of embezzlers?

- ☐ Foundations 501(C)3's
- ☐ Governments
- ☐ Churches
- ☐ Schools
- ☐ Small Business
- ☐ Individuals

I have stood and watched businesses handle money and I just shake my head in disbelief at the way some Petoskey business handle cash. If the owner would just take the time and just watch and see the goings on from a distance, don't stand at the register.

Embezzlement can be the loss of a small amount of money such as a couple of dollars taken from a cash register, or it can be a considerable sum stolen through an elaborate bookkeeping scheme.

Thieves typically see themselves as smarter than those with whom they work and cunning enough to beat the system. Methods of embezzling are limited only by imagination.

Here are some examples I've heard:

- In the simplest situation, cash is received and the employee merely pockets it without recording the transaction. This type of theft is difficult to prevent or detect if the transaction is a cash sale, and no subsequent entry is necessary in receipt or accounts receivable records typically, Bowling alley, Bars, Golf Pro Shops, etc, where cash flows over the counter.

- Somewhat more complicated is what's called lapping, which involves the temporary withholding of receipts for accounts receivable payments. In lapping, an employee who opens mail or otherwise receives cash and checks as payment holds out a $100 dollar cash payment made by Customer A. To avoid arousing suspicion on A's part, $100 is then taken from a $200 payment made by customer B a few days later. This is sent on, together with the necessary documentation, for processing and crediting to the account of A. The embezzler pockets the remaining $100, which increases the shortage to $200.

A fraud of this nature can run on for years. Of course, it requires detailed record keeping by the embezzler in order to keep track of the shortage and transfer it from one account to another to avoid suspicion. Any indication that an employee is keeping personal records of business transactions outside your regular books of account should be looked into. If the embezzler also has access to accounts receivable records and statements, he or she is in a position to alter the statements mailed to customers.

- Sometimes company bank accounts are used for check kiting. In fact, losses from some large check-kiting schemes have been great enough to cause a company to go broke. In the usual scheme, the check-kiter must be in the position to write checks on and make deposits in two or more bank accounts. One account could be the embezzler's personal account and the other a business checking account. If the embezzler has an accomplice in another business, two business accounts may be used.

Those are but a few examples, but there are dozens of ways a dishonest employee can defraud their employer. Purchasing agents can accept "kickbacks" from suppliers from purchasing goods at inflated prices. Salespeople and others can pad their expense accounts. Overtime can be falsely recorded. And so on ...

Red Flags to watch for with employee habits

Does your office or business do any of the following, then you are a prime target for fraud!

1) Does the same Person who prepares checks sign them?
2) Does the same Person who receives payments make the deposits?
3) Does the same Person who makes deposit reconcile bank statements?
4) Do you use a rubber stamp to sign checks?
5) Do you have one office employee with no back-up?
6) Do you use one credit card for more then one person?
7) The number of persons who can sign checks is more than one?
8) Leave cash lying about?
9) Does the same person who counts money make the deposits?
10) *Churches*; does one person count money?
11) Do you make nightly deposits?
12) Are the people who handle your money bonded?
13) Do you change business locks periodically?
14) Employee not interested in a promotion.
15) Person never takes a long vacation just a day or two at a time.
16) Someone who comes early to work and stays late and works weekends.
17) Change in dress habits, New car, New Jewelry.
18) Is there a sick spouse at home and no insurance?
19) Does the person go to the bank a lot? Pick up statements, and or checks.
20) Always wants to open mail first.
21) Enrolled their children in private school.
22) You don’t compare check stubs against cancelled checks and paid invoices?
23) As a restaurant owner you don’t account for every guest check in numerical order.
24) Unusual drop in profit
25) Disorganized records
26) Missing documents
27) Duplicate payments
28) An employee rewriting records for the sake of "neatness"
29) An employee refusing to take vacations and working excessive overtime
30) An employee refusing a promotion