Employee Dishonesty: National Survey of Risk Managers on Crime

R. A. (Andy) Wilson, CFE, CPP
Managing Director
Wilson & Turner Incorporated
Investigative Consultants

Abstract

During the last several years, corporations once held in high regard because of their power and profit have been cited in headline news stories alleging claims of dishonesty and corruption. Several corporate executives have been indicted and prosecuted for fraudulently enticing investors and stealing corporate assets. This corporate dishonesty created havoc in the United States capital markets, ultimately causing millions of individuals to lose trillions of dollars. Faced with plummeting portfolios and tighter pocketbooks, have employee opportunists taken advantage of their corporate position to steal assets from the workplace?

In this applied research study, a survey of risk managers was administered, exploring employee dishonesty and crime in corporate America. Corporate risk managers are in key positions to know the losses an organization sustains due to dishonesty and are intimately involved in the assessment of risks, identification of prevention techniques and the negotiation and purchase of insurance, as well as filing claim losses.

This article details results from 2,163 respondents representing organizations of all sizes across multiple industries. It answers the question: "Have employee opportunists taken advantage of their corporate position to steal assets from the workplace?" and documents the increase in dishonesty by exploring the details of 3,113 employee crimes, including crime types, methods of discovery, loss amounts, employee positions and outcomes.

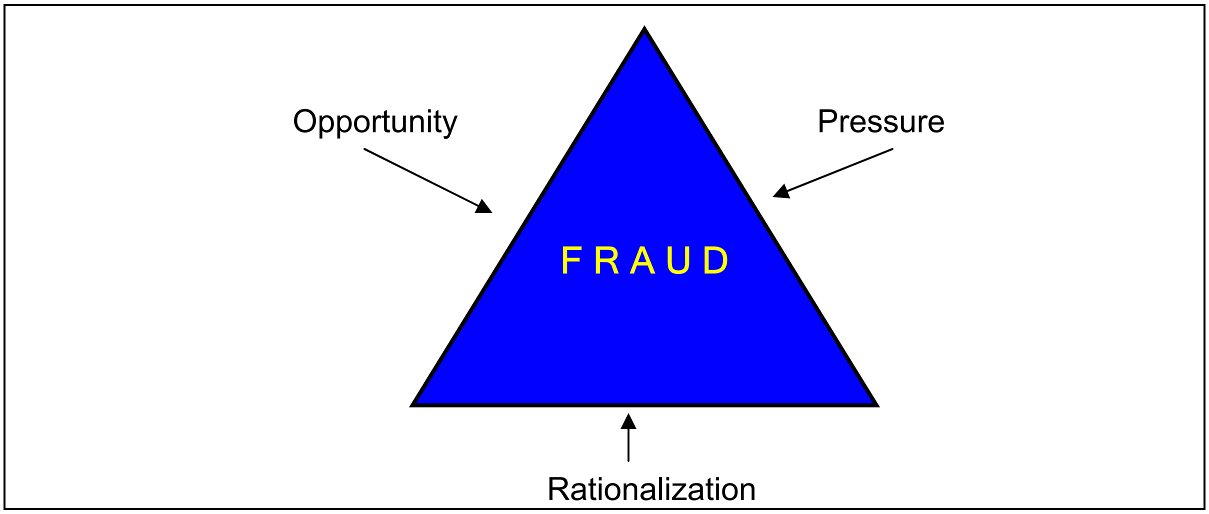
Introduction

Frank W. Abagnale, Jr., made almost a household name by the movie *Catch Me If You Can*, discusses workplace dishonesty in his 2002 book, *The Art of the Steal*. Abagnale explains embezzlement, which he considers the nation's number one crime, in Chapter 4, "The Thief at the Next Desk." He contends through example that many employees are dishonest and fraudulent, and breach their fiduciary relationships by stealing from their employers through a variety of schemes and plots.

According to the work of Dr. Donald R. Cressey, embezzlement involves three elements which make up the fraud triangle: opportunity, pressure (motivation), and rationalization (moral justification.) Cressey's fraud triangle has formed the foundation for understanding why employees breach a fiduciary trust bestowed to them and choose to be dishonest and to fraudulently profit from their employers. Figure 1 shows the three elements of the fraud triangle (Cressey, 1973).

Opportunity is the first and most important element in the triangle. This is the part of the equation that an organization can effectively use to deter employee dishonesty through policies, procedures and processes. However, for those organizations lacking controls, one can hear words such as those offered by Karen Burns (a fictitious name) in an interview after being caught stealing $1.5 million through an accounts payable scheme: "There was no company procedure for processing checks, and no one was paying attention to me." Burns' crime clearly started as a crime of opportunity.

Figure 1. Cressey's Fraud Triangle



Pressure, that is, the motivation for a crime, can come from any number of sources. For many, it is greed. This was true of Donna Price (a fictitious name), who diverted the donations from a parochial school to pay her credit card bills. The statements subpoenaed during the investigation revealed that Price spent an average of $40,000 monthly over the 26-month scheme. She regularly attended social clubs and political gatherings, using her credit card to live the lavish life-style she enjoyed. Price used the credit card to purchase a new car, jewelry, clothes, and many other items, as well as to travel and pay her mortgage. In her interview, Price stated that her family was independently wealthy, and she began stealing to show "proof of her independent success."

Rationalization is the attitude or thought process of the dishonest individual, and is also known as moral justification. Dishonest employees rationalize their crime with thoughts and often make statements such as:

- "The company will never miss it;"
- "I hate my supervisor;" and
- "I am not really stealing; I work hard – I deserve it."

As Carolyn Webb (a fictitious name) stated, "I staged the robbery to make things even between the company and myself." As the manager of a convenience store, Webb claimed to have been robbed while making a $19,000 weekend bank deposit. Webb ultimately confessed that she actually embezzled the money because she felt unjustly penalized when she did not receive anticipated bonuses.

While it is evident that employee dishonesty exists, the lack of accurate reporting has made it difficult to quantify. The Uniform Crime Reports (UCR) and NIBRS, the National Incident Based Reporting System afford a general look at the problem, as they document economic crime offenses such as fraud, embezzlement, forgery and counterfeiting, and bribery. Other federal and industry studies have also attempted to measure the impact of employee fraud. This research has included general fraud experiences, perceptions and awareness, but none has approached the subject from the unique perspective of the corporate risk manager.

Methodology

The purpose of this applied research project was to assess employee dishonesty crimes perpetrated against the nation's corporations. The project focused on a three-year period beginning in January 2000, a time in our history when corporate dishonesty caused havoc in the United States capital markets. The failures of Enron, WorldCom, Adelphia Communications and other corporate giants fueled public dissatisfaction.

To obtain the data for this project, risk management professionals were contacted and asked to complete an anonymous survey. The design of the survey allowed the information to be electronically submitted over the Internet within a five- minute period.

The hypothesis to be proved or disproved by this study was as follows:

Employee dishonesty

- Is a major problem;
- Is an increasing problem;
- Has increased since corporate dishonesty caused havoc in the U.S. capital markets beginning in January 2000.

The results of this survey provide some support for a corresponding relationship between increased employee crimes and the significant financial losses suffered by millions of Americans, caused by corporate dishonesty and fueled by the accounting frauds, corporate failures and ensuing bankruptcies, as seen by the respondents.

The Subjects of the Study

This research project focused on the entire subscriber list -- approximately 16,000 corporate risk management professionals -- of *Risk & Insurance*, an LRP Publications, Inc. (LRP) division, with its headquarters located in Horsham, Pennsylvania. A total of 2,163 respondents (representing 13.51% of the population) participated.

Data Collection Method

Advanced technology was used to collect the data. On October 15, 2003, a message was electronically dispatched to the *Risk & Insurance* database. The email, which was sent by Jack Roberts, Editor-in-Chief of *Risk & Insurance,* explained the purpose of the survey and asked the professionals to complete a questionnaire accessible through an Internet hyper-link. A password allowed the respondents access to the Internet page, which was immediately available. The questionnaire was designed to allow for the collection of information, without attributing any specific answers to any particular respondent. The survey was concluded on October 25, 2003. Microsoft Excel was used to tabulate and graph the collected data.

The Survey and Results

Self-Defining Attributes

Prior to completing the actual questionnaire, the respondents were asked to provide several self-defining attributes, which were used to provide a general understanding of the organization. These four attributes included:

- Title of the respondent;
- Organization's gross revenue;
- Organization's employee count;
- Type of industry.

Title: As seen in Figure 2, a total of 1,562 respondents use the title "corporate risk manager." This is an overwhelming majority and provides an excellent foundation for this survey. A total of 601 respondents do not hold the "specific" title of risk manager, however they do have the responsibility for and perform the duties associated with the position.

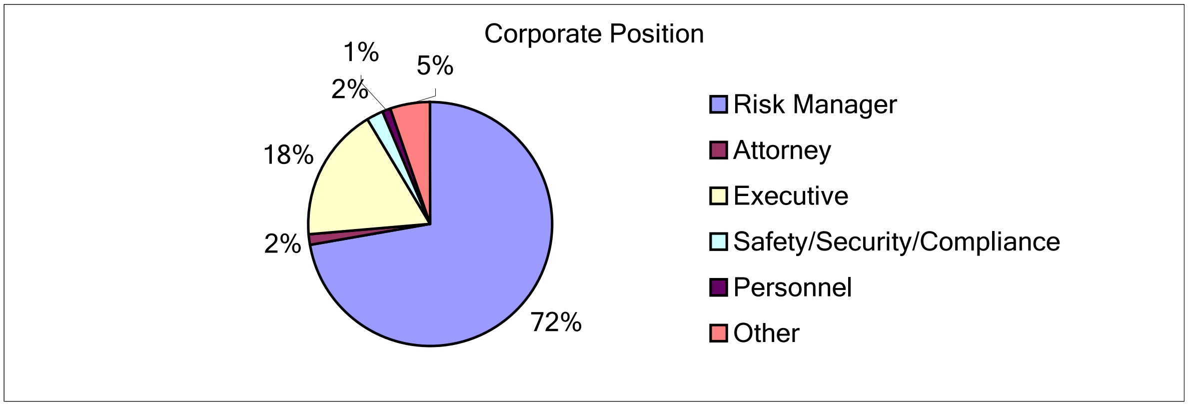
Of the 601 non-risk manager respondents, 96% are from the survey's smallest company category of gross revenue and employees, as follows:

- Executive, 382;
- Safety/security/compliance, 45;
- Attorney, 33;

- Personnel, 27; and
- Other titles, 114.

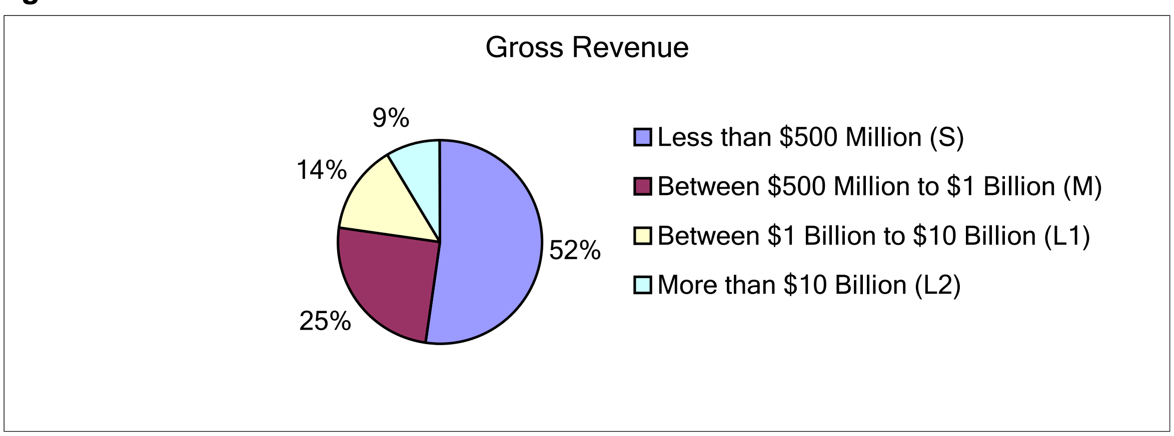
The respondents identified by “other” titles might well have selected the corporate executives category, as they include titles, such as: owner, president, CEO, CFO, corporate controller, director of finance, treasury manager, business unit vice president, corporate loss prevention manager, facilities manager and corporate claims manager.

Figure 2. Corporate Positions



Corporate Gross Revenues and Employee Size: In an effort to provide some perspective on the size of the respondent organizations, questions were asked regarding gross revenue and employee size. Four categories were used in each area. Of significant interest, shown in Figures 3 and 4, the data revealed that over one-half of all respondents are in the survey’s smallest category of gross revenues and employees.

Figure 3*.* Gross Revenue



Small Business: For the purpose of this research, the small business category means organizations with less than $500 million in gross revenues and less than

1,000 employees. Over 50% of the respondents fall into the small business category, as follows:

- Gross revenue, 1,132; and
- Employees, 1,221.

Medium Business: The medium business category includes organizations between \$500 million to \$1 billion in gross revenues and between 1,000 to 5,000 employees. More than 25% of the respondents fall into this category, as follows:

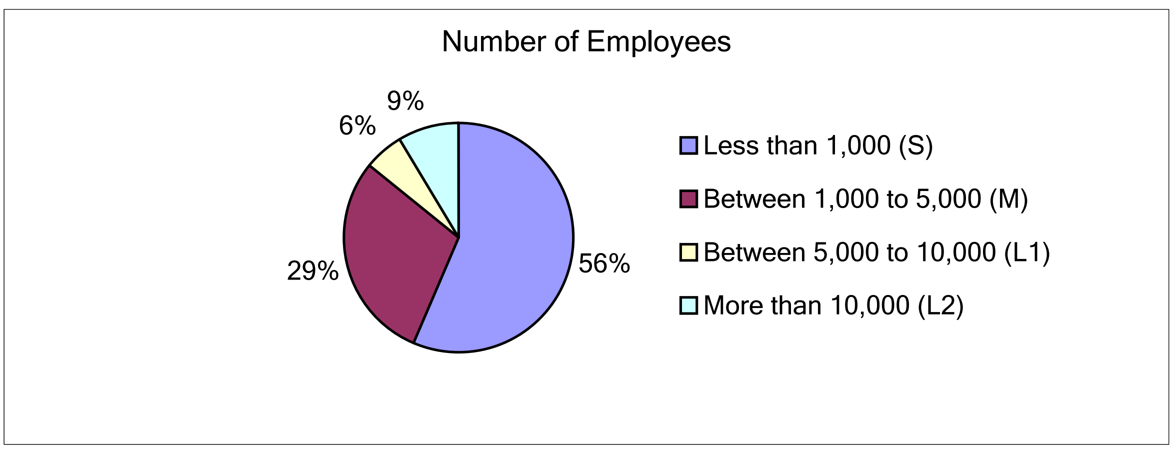
- Gross revenue, 541; and
- Employees, 633.

Large Business: The large business category includes organizations in excess of \$1 billion in gross revenues and in excess of 5,000 employees. Slightly fewer than 25% of the respondents fall into this category, as follows:

- Gross revenue, 490; and
- Employees, 309.

To better understand the composition of the large business category, gross revenues and employee size were again segregated into two classes.

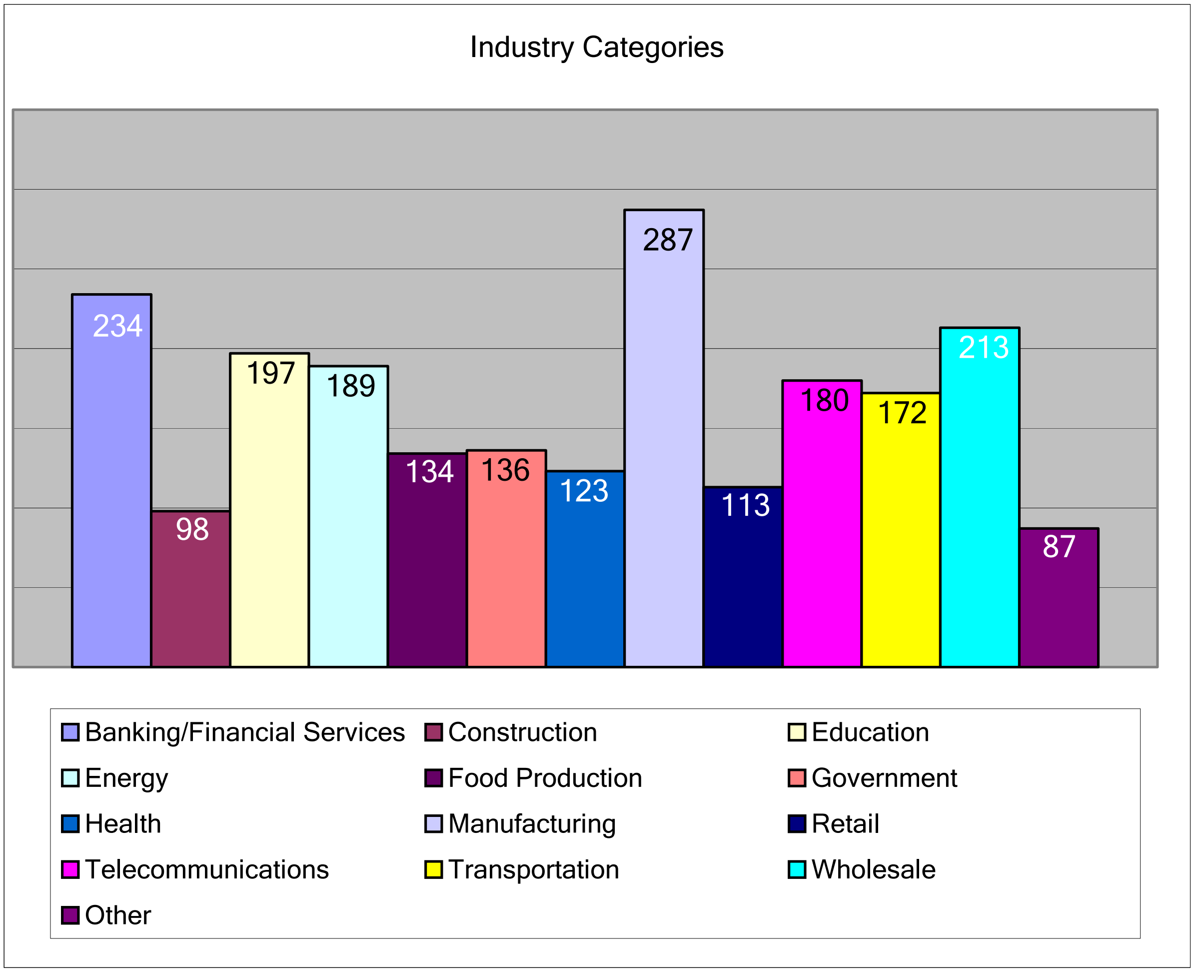
Figure 4. Number of Employees



Industry Categories: Respondents were asked to identify their particular industry. Their responses were grouped into the following categories

- Banking/Financial Services and Manufacturing, 23% cumulative total
- Education, Energy, Food Production, Government, Health, Retail, Telecommunications and Transportation average between 5-9% each
- Construction and "other," 4% each

Figure 5. Industry Categories



Opinions About Dishonesty

Respondents were asked their opinions regarding employee dishonesty. These opinions are noteworthy, as these professionals are in a key position to know whether:

- Employee dishonesty is a major problem;
- Employee dishonesty is an increasing problem;
- Employee dishonesty increased since corporate dishonesty caused havoc in the U.S. capital markets [January 2000].

In answering these three questions, the respondents were asked to differentiate their opinion by using certain perspectives:

- In general; and
- At their business (specifically).

Based on the answers provided by the 2,163 respondents, the findings validate this study's hypothesis. However, the answers to the first two questions are interesting. For example, as seen in Figure 6, respondents answered the question about employee dishonesty being a "major problem," as follows:

- In general, 74%; and
- At their business, 16%.

Figure 6. Employee Dishonesty: Major Problem

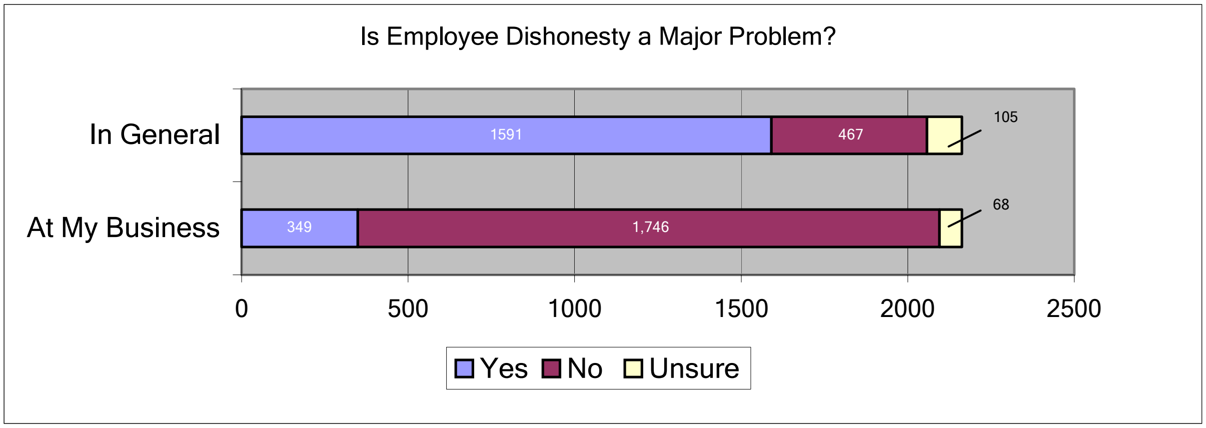
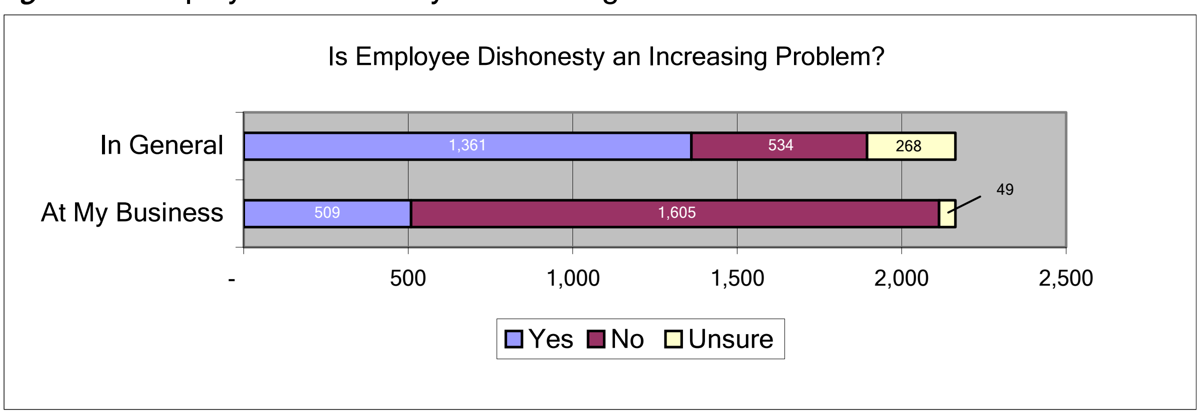


Figure 7 shows that respondents answered the question about employee dishonesty being an "increasing problem," as follows:

- In general, 63%; and
- At their business, 23%.

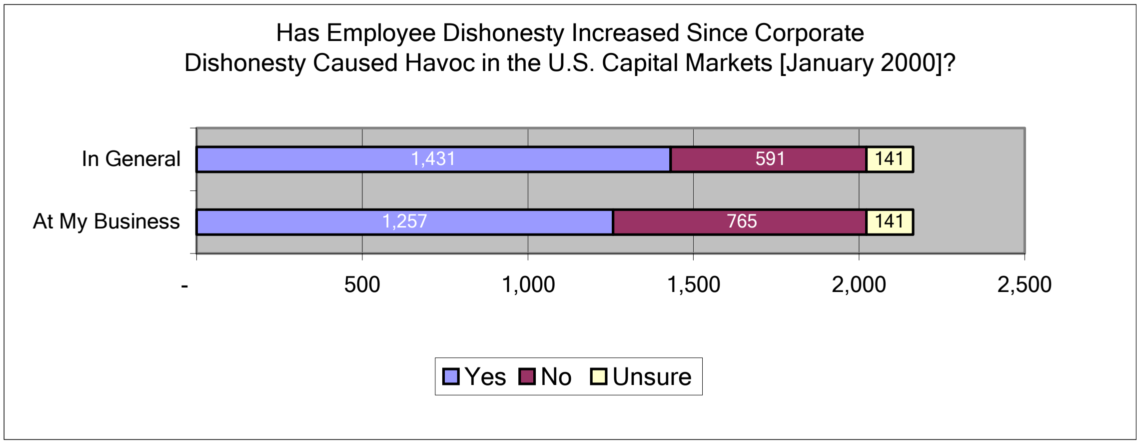
Figure 7. Employee Dishonesty: Increasing Problem



It is interesting to note that while the overwhelming majority of the respondents consider employee dishonesty to be both a major and increasing problem "in general," they do not deem it to be a major or increasing problem in their own organizations. On the other hand, as seen in Figure 8, the respondents overwhelmingly confirm that employee dishonesty has increased, both in general and at their business since corporate dishonesty caused havoc in the U.S. capital markets [January 2000]. Details of their answers are, as follows:

- In general, 66%; and
- At their business, 58%.

Figure 8. Employee Dishonesty: Increase.



The answers to these three questions validate and confirm the hypothesis that employee dishonesty is:

- A major problem;
- An increasing problem; and has
- Increased since corporate dishonesty caused havoc in the U.S. capital markets [January 2000].

One hundred and forty one of the respondents were unsure of the increase since corporate dishonesty caused havoc in the U.S. capital markets [January 2000]. It is particularly interesting that 92 of the 141 respondents (representing 65%) identified themselves as a corporate executives in the self-defining attributes section.

Employee Dishonesty Experiences

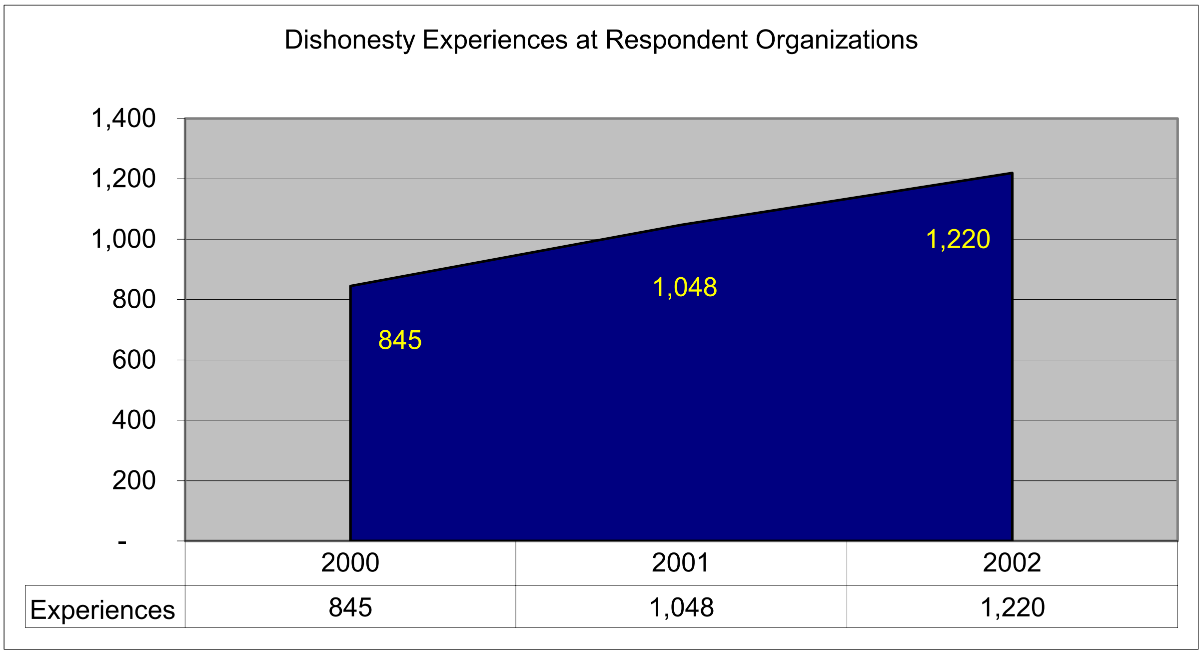
For the purpose of this research project, employee dishonesty is defined as follows: “The dishonest acts committed by an employee acting alone or in collusion with others, with manifest intent to cause the organization to sustain a loss [in excess of $10,000], and where the employee received a financial benefit.”

Respondents were asked if their organizations had experienced employee dishonesty since corporate dishonesty caused havoc in the U.S. capital markets

[January 2000]. A total of 3,113 incidents of employee dishonesty were identified. As shown in Figure 9, the organization's experiences are, as follows:

- 2002:
  - Dishonesty, 56%; and
  - No dishonesty, 44%.
- 2001:
  - Dishonesty, 48%; and
  - No dishonesty, 52%.
- 2000:
  - Dishonesty, 39%; and
  - No dishonesty, 61%.

***Figure 9**.* Dishonesty Experiences.

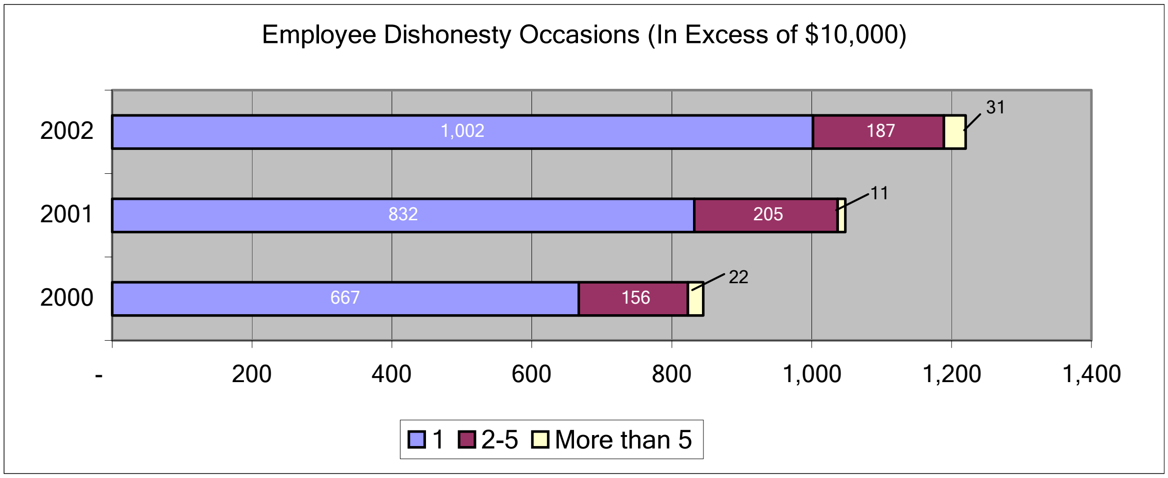


To further distinguish the organizations experiencing multiple events in excess of $10,000, respondents were asked to document the quantity of experiences. Figure 10 shows that respondents identified their organization's experiences, as follows:

- 2002:
  - Single dishonesty event, 82%; and
  - Multiple dishonesty events, 18%.
- 2001:
  - Single dishonesty event, 79%; and
  - Multiple dishonesty events, 21%.
- 2000:
  - Single dishonesty event, 78%; and

- Multiple dishonesty events, 22%.

Figure 10. Employee Dishonesty Occasions.



Using respondent organizations as a baseline, the evidence clearly shows that the number of employee dishonesty events has steadily increased since 2000. This evidence shows a disturbing trend of increased workplace dishonesty.

Further, evidence shows that of the organizations reporting dishonesty, approximately 80% had a single event, while about 20% had multiple events. In an effort to analyze reported events of employee dishonesty in greater detail, respondents provided specific information about their dishonesty occasions. Included in their responses were five key pieces of information.

- Dishonesty type
- Loss amount
- Employee position
- Duration of the scheme
- Outcomes

Dishonesty Types

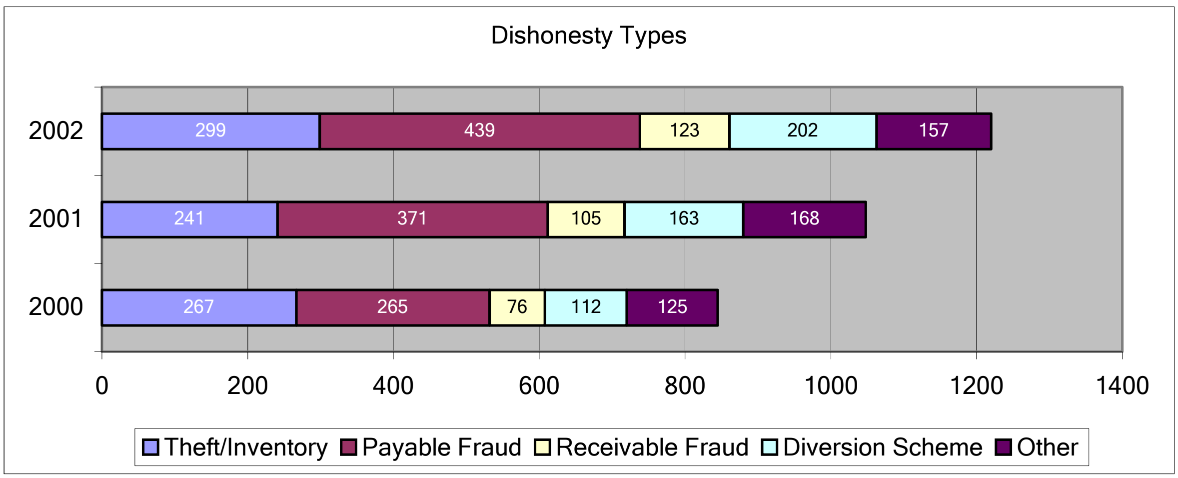
Research concerning employee dishonesty covers many variables. The ACFE organization lists dishonesty in three primary areas: asset misappropriation, corruption, and financial statements, with 80% of the losses in the asset misappropriation area. This author's experience of investigating dishonest employees indicates that the majority of losses are sustained through:

- Inventory/theft schemes;
- Payable fraud;
- Receivable fraud;
- Diversion schemes.

Survey respondents were asked about dishonesty in these four areas. A category identified as "other," was also used to document any other forms of dishonesty.

As seen in Figure 11, the evidence reveals employee dishonesty proportionately increased from year to year in three of these areas: payable fraud, receivable fraud and diversion schemes. Cumulatively, the theft/inventory and "other" categories also increased each year. It is interesting to note that from 2000 to 2001, the theft/inventory category decreased in the number of incidents, while in the "other" category, the number of incidents increased. While dishonesty of any type is alarming, evidence suggests that payable fraud, receivable fraud and diversion schemes increased annually.

Figure 11. Dishonesty Types



Respondents identified employee dishonesty events in the "other" category as bribery/kickback schemes, bid rigging, fictitious write-offs, employee ghosting and expense schemes, among others.

Loss Amounts

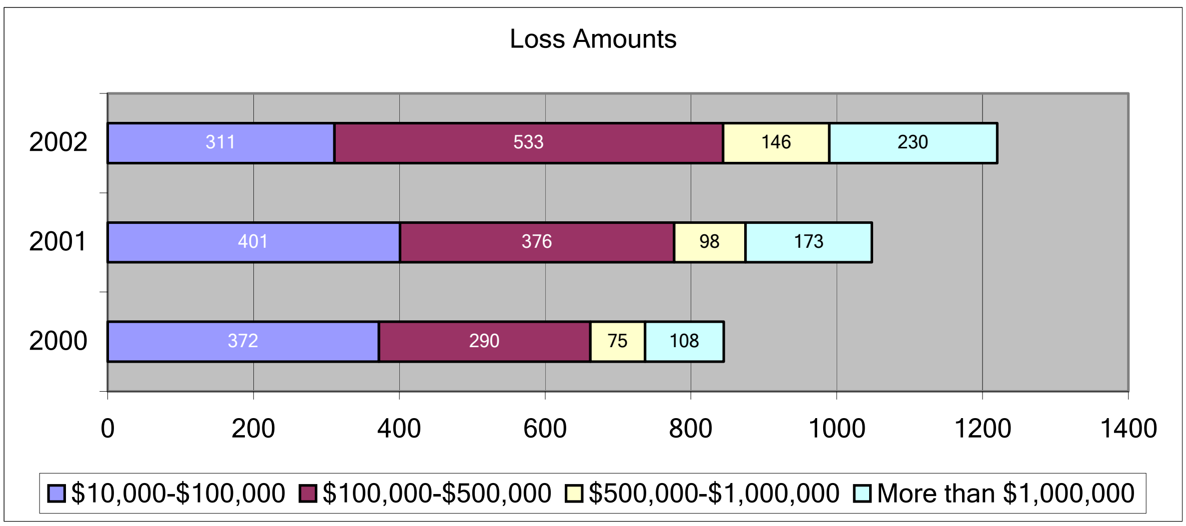
Respondents were asked to identify the loss amounts associated with their particular dishonesty events. The organization's employee dishonesty loss amounts are, as follows:

- 2002:
  - In excess of $1,000,000, 19%;
  - $500,000 - $1,000,000, 12%;
  - $100,000 - $500,000, 44%; and
  - $10,000 - $100,000, 25%.
- 2001:
  - In excess of $1,000,000, 16%;
  - $500,000 - $1,000,000, 10%;

- $100,000 - $500,000, 36%; and
- $10,000 - $100,000, 38%.
- 2000:
  - In excess of $1,000,000, 13%;
  - $500,000 - $1,000,000, 9%;
  - $100,000 - $500,000, 34%; and
  - $10,000 - $100,000, 44%.

As previously discussed, the evidence shows that employee dishonesty has increased since 2000. Additional evidence, shown in Figure 12, documents the amounts dishonest employees are stealing. For example, the quantity of loss events in each of the largest three categories reveals increasing amounts. This trend calls for tighter controls, and consideration of increased crime insurance coverage.

Figure 12. Loss Amounts



Employee Positions

Respondents were asked to identify the employee position associated with the particular dishonesty event. In some instances, employees worked in collusion with other employees to steal from the organization.

The identified employee categories are, as follows:

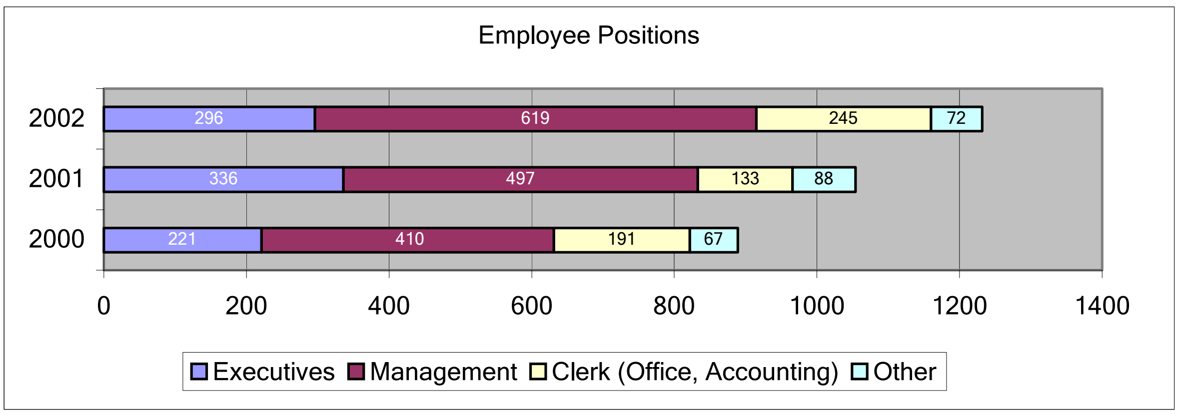
- 2002:
  - Executive, 24%;
  - Management, 50%;
  - Clerk/Accounting, 20%; and
  - Other, 6%.
- 2001:
  - Executive, 32%;

- Management, 47%;
- Clerk/Accounting, 13%; and
- Other, 8%.

- 2000:
  - Executive, 24%;
  - Management, 46%;
  - Clerk/Accounting, 21%; and
  - Other, 6%.

Additional evidence, as seen in Figure 13, documents that the employee thief is either an executive or in a management position 70-79% of the time. A closer review notes an increased trend in management thefts.

Figure 13. Employee Positions.



Duration of Schemes

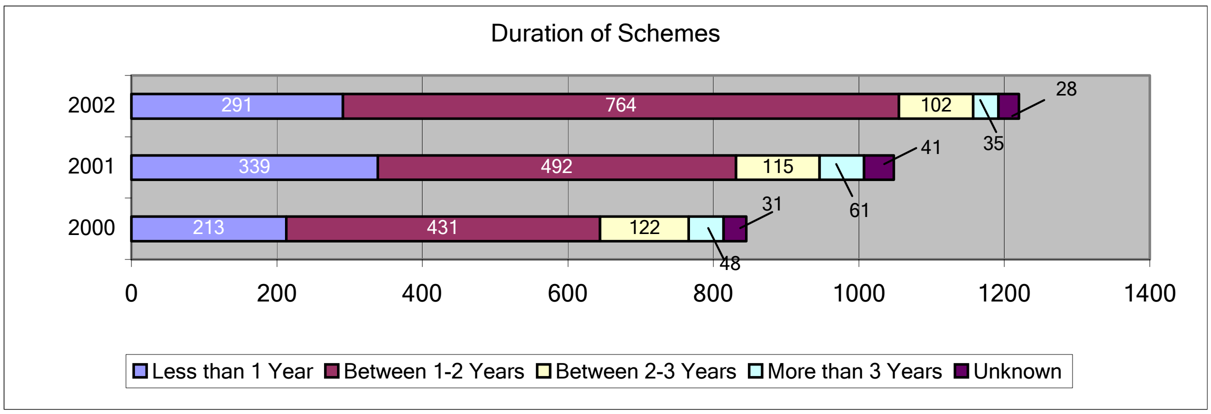
Respondents were asked to identify the duration of schemes associated with the particular dishonesty events. Five categories were used to document the findings, as follows:

- 2002:
  - Less than 1 year, 24%;
  - Between 1-2 years, 63%;
  - Between 2-3 years, 8%;
  - More than 3 years, 3%; and
  - Unknown, 2%.
- 2001:
  - Less than 1 year, 32%;
  - Between 1-2 years, 47%;
  - Between 2-3 years, 11%;
  - More than 3 years, 6%; and
  - Unknown, 4%.
- 2000:
  - Less than 1 year, 25%;

- Between 1-2 years, 51%;
- Between 2-3 years, 14%;
- More than 3 years, 6%; and
- Unknown, 4%.

Figure 14 shows that the most notable trend documented is the 1-2 year interval. Respondents report an increase in each year and the totals indicate that between 47-63% of the schemes are discovered during this 1-2 year period. It is also interesting to note that in 2001, time durations spiked in the less than 1 year and each category in excess of 2 years.

Figure 14. Duration of Schemes.



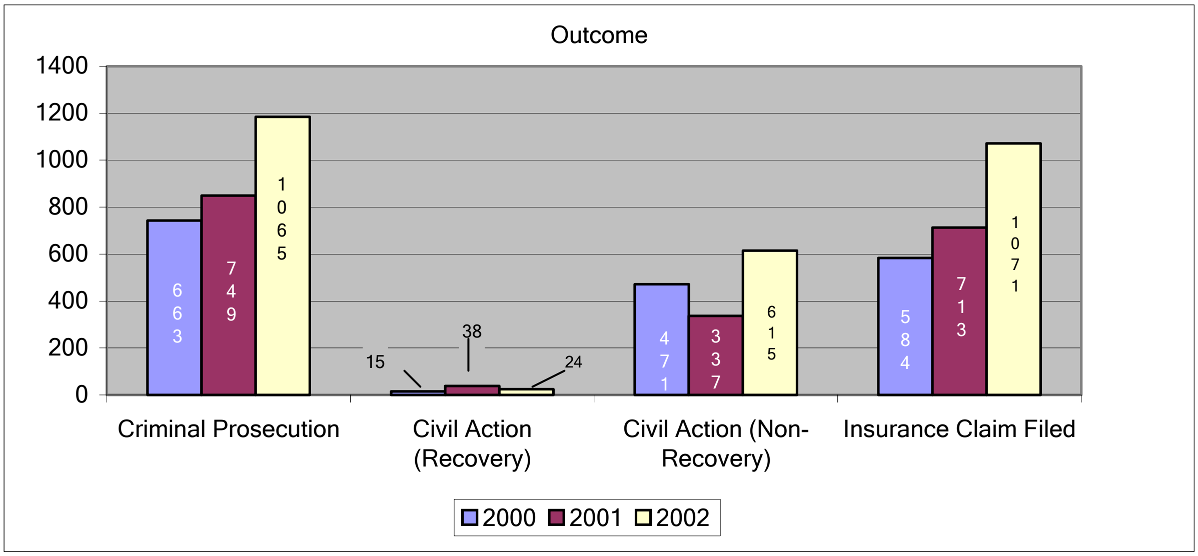
Outcome

Respondents were asked to provide information regarding the outcomes of the particular dishonesty events. The following information represents outcome totals in four primary categories as follows:

- 2002:
  - Criminal Prosecution, 87%;
  - Civil Action (Recovery), 2%;
  - Civil Action (Non-Recovery), 50%; and
  - Insurance Claim Filed, 87%.
- 2001:
  - Criminal Prosecution, 71%;
  - Civil Action (Recovery), 4%;
  - Civil Action (Non-Recovery), 32%; and
  - Insurance Claim Filed, 68%.
- 2000:
  - Criminal Prosecution, 77%;
  - Civil Action (Recovery), 1%;
  - Civil Action (Non-Recovery), 45%; and
  - Insurance Claim Filed, 69%.

As Figure 15 shows, the trend in 2000 and 2001 suggests that criminal prosecutions averaged between 71-77%, and 2002 revealed a spike in prosecutions to 87%. The same trend held true for insurance claims filed, which in 2000 and 2001 averaged between 68-69%, but in 2002 increased to 87%.

Figure 15. Outcome



Employee Dishonesty Insurance

Respondents were asked if their organizations carry insurance coverage to protect against employee dishonesty. A total of 93% of these organizations have commercial crime insurance or a financial institution bond.

- Small Businesses
  - Yes, 89%
  - No, 11%
- Medium Businesses
  - Yes, 97%
  - No, 3%
- Large Businesses
  - Yes, 99%
  - No, 1%

Of real interest, as seen in Figure 16, 131 respondents do not have this type of coverage. Of those, 42 suffered a loss during this period at the hands of a dishonest employee. Forty one of these organizations are in the small business category. Twenty six suffered losses between $10,000 - $100,000, and 15 had losses between $100,000 - $500,000. None of the 41 respondents is identified by a “risk management” title.

Figure 16. Organizations with Dishonesty Insurance.

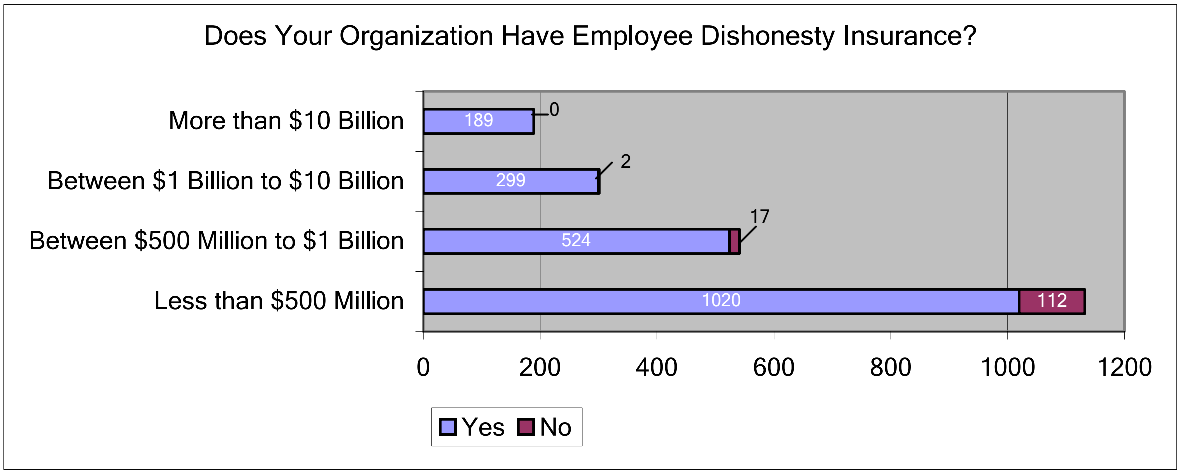
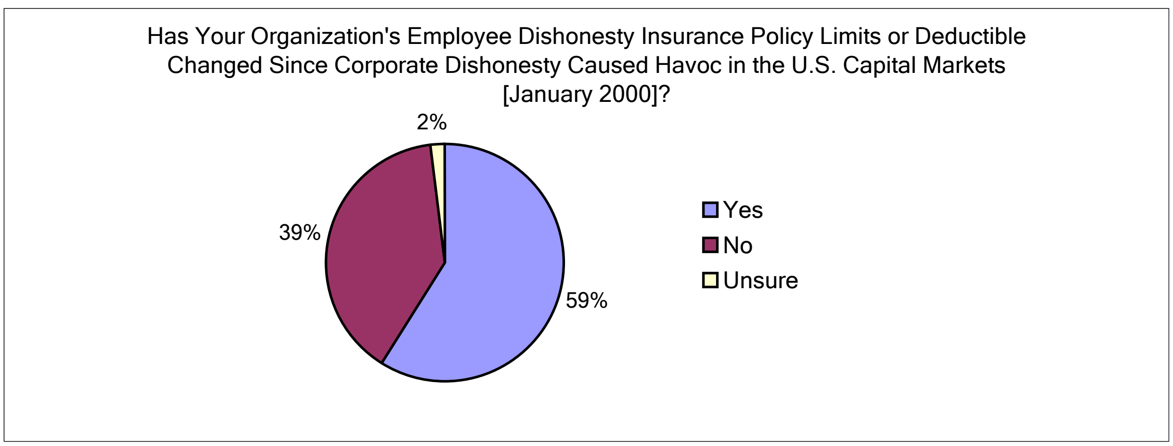


Figure 17 shows that 59% of the respondents revealed that their crime insurance policy had some type of modification over the three-year period. Many claim to have increased their deductible simply to maintain a manageable premium.

Figure 17. Insurance Policy Changes.



Prevention and Detection Techniques

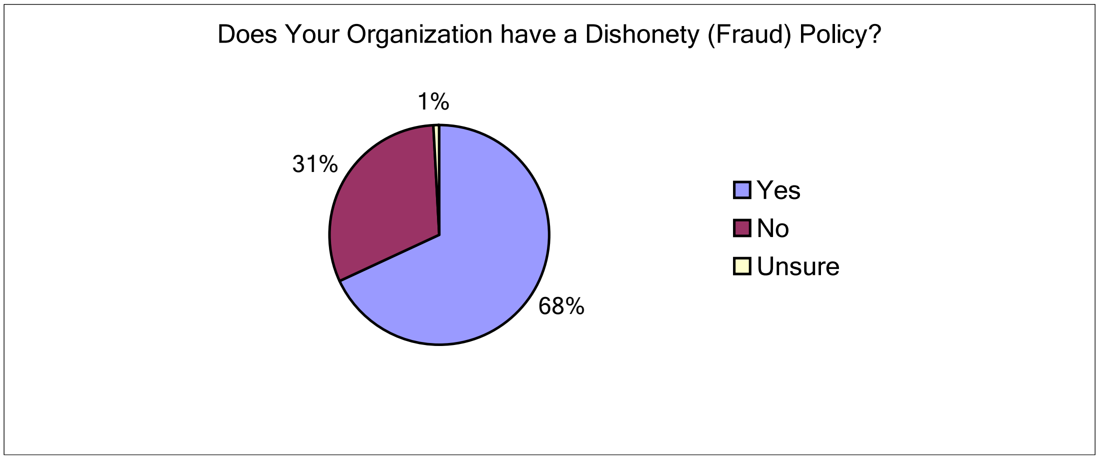
The survey asked respondents to share certain dishonesty prevention and detection techniques. These primarily fall into the following five categories.

- Dishonesty or fraud policy
- Anonymous reporting process
- Prevention responsibility
- Methods of dishonesty
- Prevention factors

Dishonesty (Fraud) Policy**:** The survey results reveal that over time, more organizations are designing integrity and ethics programs aimed at preventing and deterring workplace dishonesty. The answers to the question, “Does your organization have a dishonesty (fraud policy)” indicated that more than two thirds of the respondents’ organizations have such a policy.

- Yes, 1,471
- No, 674
- Unsure, 19

Figure 18. Existence of Dishonesty (Fraud) Policies.

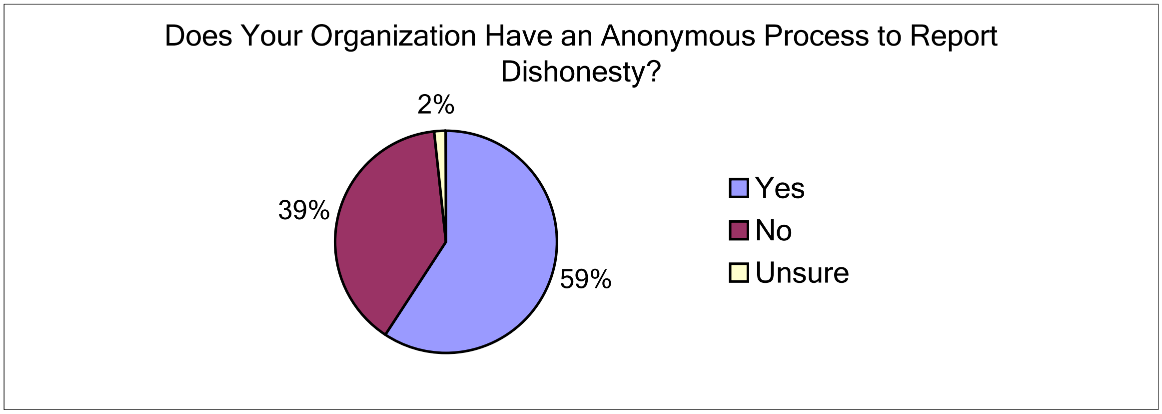


Most respondents cited the corporate responsibility legislation titled the Public Company Accounting Reform and Investor Protection Act (short named The Sarbanes-Oxley Act of 2002), as the underlying reason for the development and implementation of the policy.

Anonymous Reporting Process**:** For public companies, a component of complying with The Sarbanes-Oxley Act of 2002 is the creation of an anonymous process by which knowledgeable persons can report suspected dishonesty. The survey results indicated that three out of five organizations have an anonymous reporting process allowing employees knowledgeable of dishonesty a means by which to report infractions confidentially.

- Yes, 1,271
- No, 845
- Unsure, 39

Figure 19. Existence of Anonymous Reporting Processes.

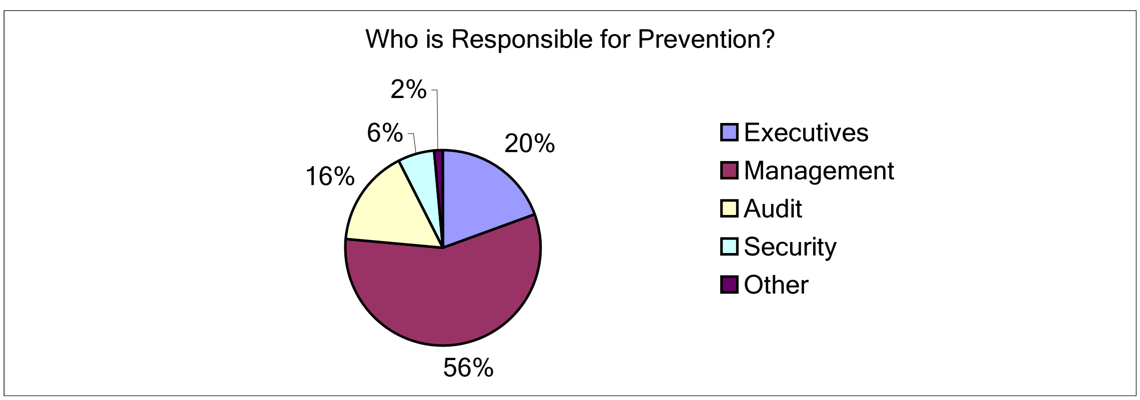


<u>Prevention Responsibility</u>**:** Respondents were asked to indicate who at their organization is responsible for preventing workplace dishonesty. Their responses fell into the five categories listed here.

- Executives, 422
- Management, 1,231
- Auditors, 345
- Security, 132
- Others, 33

As Figure 20 shows, over 50% of the respondents reported that management is responsible for prevention.

Figure 20. Persons Responsible for Prevention



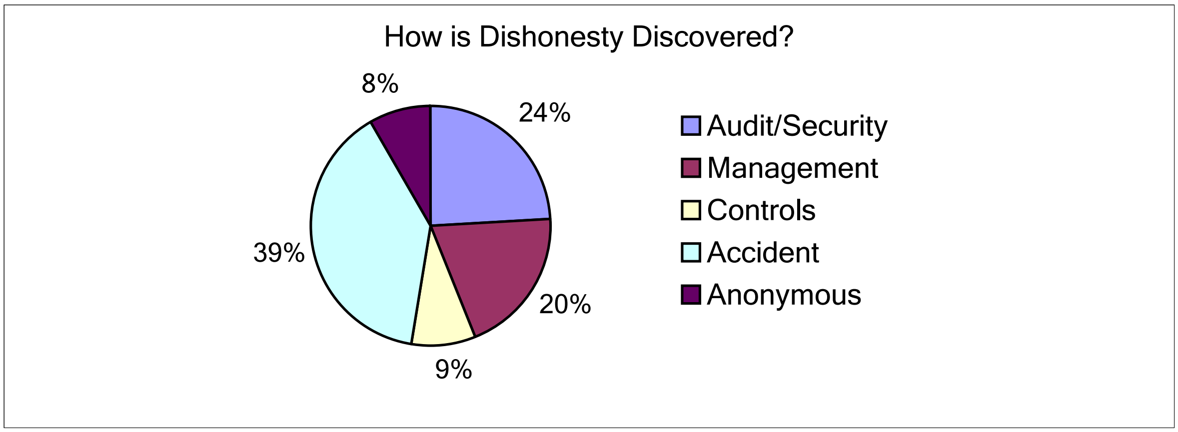
<u>Methods of Discovery</u>**:** Various methods of discovering dishonesty were reported.

- Audit/Security, 520
- Management, 427
- Policy, 187

- Accident, 846
- Anonymous, 183

Figure 21 shows that dishonesty is discovered merely by accident 39% of the time. Respondents reported that the combined efforts of audit and security are responsible for detecting dishonesty less than 25% of the time. They claim that management is responsible for one-fifth of the discoveries.

Figure 21. Dishonesty Discovery.

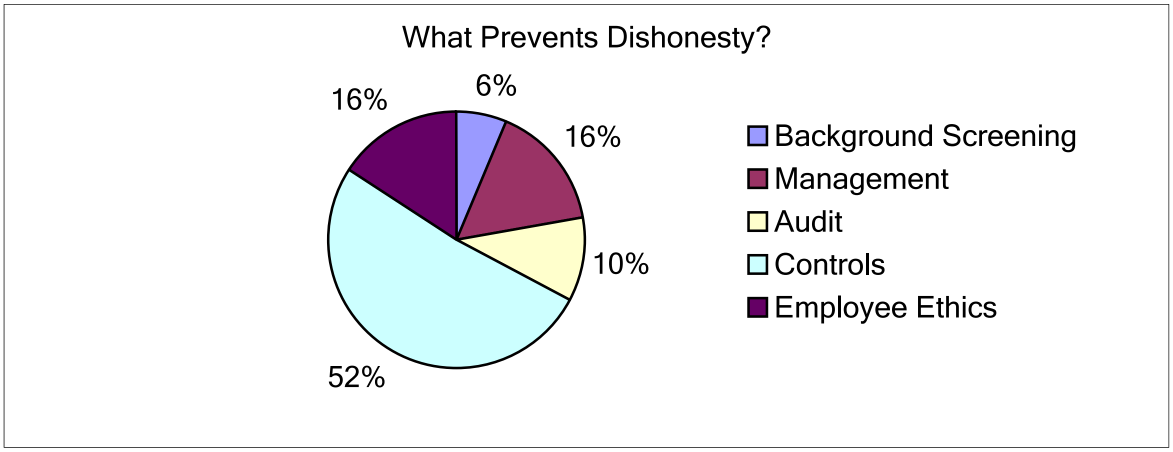


<u>Dishonesty Prevention</u>**:** Respondents identified five elements used to prevent dishonesty.

- Background screening, 137
- Management, 340
- Controls, 1,101
- Employee ethics, 336
- Audits, 222

More than half of the respondents, as seen in Figure 22, state that controls are the single most important factor in preventing dishonesty. Management and employee ethics tied as the second method of prevention, while background screening is the least important.

Figure 22. Preventing Dishonesty



Conclusions and Recommendations

As identified by the respondents in this national survey of risk managers on crime, employee dishonesty is a major problem that has increased since corporate dishonesty created havoc in the U. S. capital markets beginning in January 2000, and is increasing annually. This research project, which covers 3,113 employee dishonesty crimes (in excess of $10,000 each), identified during 2000, 2001 and 2002, yielded several significant facts and trends, as follows.

- Payables fraud was reported as the single largest employee dishonesty type, and is a fraud type that is growing annually. In addition, receivables fraud and diversion schemes are also increasing.
- Loss amounts have increased each year, with the largest category being $100,000-$500,000.
- Persons in management positions were responsible for 46-50% of the losses, while executives were responsible for 24-32% and clerks/accountants were responsible for 13-26%.
- The average scheme lasted between 1-2 years.
- Organizations are experiencing fewer multi-occasion theft events, while single theft events are increasing on an annual basis.
- Prosecutions increased from 77% in 2000, to 87% in 2002. Insurance crime claims have also increased significantly.
- More than 90% of the organizations surveyed have commercial crime insurance or a financial institution bond, with virtually all of the medium and large businesses maintaining this type of coverage.
- Sixty percent of the organizations had some variable of change in their employee dishonesty coverage, deductible or premiums during the three years of the study.

- Sixty-eight percent of the organizations have a fraud policy and 59% have an anonymous process by which to report dishonesty. These were primarily developed to comply with the new corporate responsibility laws.
- Fifty-six percent of the respondents believed it is management's responsibility to prevent dishonesty, followed by executives at 20%.
- Dishonesty is discovered by accident 39% of the time. The combined efforts of audit/security discover internal crimes 24% of the time, while management detects dishonesty 20% of the time.
- Internal controls are the overwhelming prevention technique at 52%. Management and employee ethics tied at 16% each, while audit scored a distant 10%.

Based on the facts identified above, what are the lessons that can be learned and placed into practice?

With payables fraud being the single largest dishonesty type, corporations have a duty to increase their controls in this area. Often these fraud schemes involve fictitious (shell entities) companies, set-up by an employee. This shell business usually does not provide any goods or services, but submits invoices for payment. Other payable schemes include shorted shipments, non-delivery, or cheap substitutions. Corruption elements such as kickbacks, conflicts of interests and gift/gratuities, are also a major concern.

One of the easiest controls an organization can use is to establish a process by which the organization "pre-qualifies" vendors. Someone other than the product or services purchaser (usually at the corporate level), should conduct this process. This vetting should include obtaining: corporate information (e.g. principals, address, telephone), licensing (business, sales tax, professional) insurance details, and sales details (pricing, delivery modes). A more in-depth pre-qualification may include visiting the prospect's facility, reviewing litigation history, and contacting references, including other customers. Organizations, especially those which enter into a contract with a vendor, should include a "right-to-audit" clause in the agreement. These clauses can also be included in the on-the-back of a purchase order or procurement documents. The audit of a vendor's facility can provide a great insight, and determine if the organization is being treated fairly.

This research project determined that 90% of the respondents carry a commercial crime insurance policy, which is good. Unfortunately, that means 10% have no crime coverage at all. Crime insurance should be staple for all organizations. Project respondents report loss amounts to be increasing, a trend that suggests organizations should review their crime insurance coverage amounts on an annual basis. Since respondents identify most employee crimes as between $100,000-500,000, it is wise to confirm the organization has at minimum $500,000 of policy limits.

This research project identified that over 46% of the employee thefts were by persons in management positions. Executives were responsible for at least 24%. While these totals are staggering, the message for good business controls should be clear. Many organizations monitor their ongoing operations through an annual fraud examination. This fraud examination (different from the regular company audit) is usually commissioned by the audit committee or board of directors. It drills below the transaction's surface, to identify questionable transactions. Organizations which practice this examination technique usually can identify fraud and abuse in progress, rather than years later, an important process since the majority of frauds last between 1-2 years.

Today's business leaders are prosecuting employee criminals more than ever before. The decade-old-stigma of having one's company appear in the newspaper, citing an employee arrest appears to be less of a concern. Businesses often reap positive press by aggressively pursuing the employee criminal via criminal and civil remedies.

Research shows that 68% of respondent organizations have a policy addressing corporate fraud. The project also identified 59% of respondent organizations have an anonymous reporting mechanism in place. Many cite the Sarbanes-Oxley Act as the driving catalyst for these prevention and detection techniques. Over 50% of the respondent organizations claim management is responsible for the prevention of employee crime, yet it is reported that management only detects crime 20% of the time. Forty percent of the time, discovery was merely by accident. Fifty-two percent of the respondents report that company controls are the most effective factor in preventing and identifying employee dishonesty, yet the same respondents report that controls detect crime less than 10% of the time.

These findings suggest two important points. First, management should receive fraud and detection training to increase their odds for early detection. Second, more than one-half of the respondents state that their company's controls are the most effective prevention and detection method, however they only credit their controls with detecting employee crime in less than 10% of the occasions. This suggests that while sound controls may be in place, there is a shortcoming in the review of the controls. This might be due to lack of fraud expertise or inadequate staffing. Regardless of the rationale, organizations that place more emphasis on their controls and on the review and mining of its data will mitigate their loss exposure to crime.

Armed with the details from this research, corporate executives (particularly risk management professionals), can better understand the risks associated with employee dishonesty. The data collected concerning thousands of employee dishonesty instances, as well as the noted prevention and detection techniques, may assist management in establishing programs, policies and procedures to protect corporate assets from what convicted criminal Frank Abagnale calls the Nation's No.1 financial crime.

About the Author

R. A. (Andy) Wilson, CFE, CPP, raw@wilson-turner.com, is a founder and managing director with Wilson & Turner Incorporated, an investigative consulting firm, where he specializes in the prevention, identification, investigation and resolution of employee crime. He is a fraud examiner and a frequent speaker and author on fraud investigation, fidelity insurance recovery and related topics for the American Society for Industrial Security, the Risk and Insurance Management Society, the Institute of Internal Auditors, the Society for Human Resource Managers and the Association of Certified Fraud Examiners, among others. He has provided expert testimony in state and federal courts, and serves as an adjunct professor of Criminology & Criminal Justice at The University of Memphis. He is an active member of the American Society for Industrial Security where he serves on the Economic Crime Council, the Association of Certified Fraud Examiners where he serves on the National Faculty, and the American Bar Association where he serves on the Fidelity & Surety Law Committee.

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