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High Price of Employee Dishonesty

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THE HIGH PRICE OF EMPLOYEE DISHONESTY

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On September 22, 1954, a cashier of a loan company located in Indiana could not get the books to balance and is now under indictment for embezzling $82,107. She had been head cashier for nine years. Neighbors said she had never showed any signs of wealth and at the time of her arrest she told deputies she had only $10. Her father posted the bail for her.

Let no one think that this is an isolated case. Embezzlements committed by both sexes and at all ages range in amounts from the contents of a petty cash box up to millions of dollars.

The total stolen by employees has been estimated at between $400,000,000 and $500,000,000 annually. In an advertisement which appeared in December one surety company made the statement, "Embezzlements now cost American business over $2,000,000 a day." Based on this figure the annual amount would exceed $730,000,000. Much of this is not covered by any form of insurance. A recent survey made by a committee of the Surety Association of America indicates that only a relatively small percentage of the total loss is covered. Another survey made by a leading insurance company indicates that only 5% of all businesses purchase any form of protection against employee dishonesty.

The average amount stolen is likewise increasing. This is shown by the claim frequency of one company, third largest writer of all forms of dishonesty protection. Figures of all Surety Association member companies—which write approximately 90% of all bonds—would be comparable.

Everyone should be aware of the fact that the total value in money, securities and goods stolen by employees is increasing. The exact total is not too important. Any firm can be struck by employee dishonesty. We are so accustomed to lightly tossing large sums around that, in the abstract, the figures which I have already mentioned may mean little. The individual losses, when suffered, do mean a great deal to those who experience them. The price of employee dishonesty is too high in three important ways. First, business with either insufficient coverage or none at all can be forced to pay a loss out of income. If there is nothing to balance the loss, the business may be forced into bankruptcy. For example, a concern in Brooklyn was forced out of business because about 30 employees were stealing parts. Second, the price is too high because of the effect that the dishonest act of one employee may have on the morale of a fine, well selected, highly trained organization. There is no way to measure the total effect on the morale and attitude of other employees when a dishonest employee is discovered amongst them. Finally, the price is too high because of out of pocket expense. While the initial cost for adequate fidelity protection is nominal, any bonded loss may mean the loss of experience credit, which, depending on the size of the premium, could run upwards of 40%. A series of losses may mean the loss of a bonding company and inability to get another one readily. The cost of proving the loss, which must be done by the employer, is another price which is hard to measure but which is certainly there every time an employee steals.

Who is to blame if an employee steals? It has been stated that only in a climate and atmosphere of prevention does honesty thrive. Most employees are honest. If this were not so, bonding companies could not write bonds for the price they are now written for. Despite the fact that most employees are not thieves, many are apt to take a little now and then because they think the business can afford it and because they sincerely believe they will not be caught. One student who investigated the subject of employee dishonesty by analyzing the cases of embezzlers confined to Joliet, summed up his findings by saying that the normally honest person becomes an embezzler when—

1. There is pressure for extra funds
2. The opportunity is present

The pressures on employees who steal are many, but among men the chief pressures are: gambling, liquor and women. Among women real pressures arise when support of aged parents or ill and infirm relatives becomes heavy.

Illustrative of such pressures are the following true stories about embezzlers. Our company had one loss of $85,234, caused by an employee who occupied the position of Assistant Manager in a finance company.

His duties were to solicit and approve personal loans. Prior to going to work for the finance company this man had been bonded by us to a previous employer. At the time he was originally bonded, we made an investigation which proved highly satisfactory. We rechecked at the time he went to work for the finance company, acquired no derogatory information, and approved his bond. He was approached by a gang of bookmakers who told him they could throw a lot of business his way. Undoubtedly, this gang had customers who owed them money and who could be forced to secure personal loans in order to pay off the bookmakers. However, the employee was forced into a position of making fictitious loans. Some payments were made on these loans, but the usual practice was to re-finance them for larger amounts. The loss was disclosed by audit, whereupon the assistant manger attempted suicide.

Last year we had a loss claim from a department store in Los Angeles in the amount of $73,000. The man involved, after his military service, married his childhood sweetheart. Her father, an officer of the company which suffered the loss, gave him his first job in the Denver, Colorado store. He showed so much promise that he was transferred to the main store in Los Angeles as a buyer for the notions department. While occupying this job he conceived the plan—not at all original—of establishing a fictitious business for which he purported to purchase quantities of merchandise, had checks drawn to the business which he endorsed as President and deposited in a special bank account. He was so successful as a buyer that he was made manager of a suburban store which has a substantial volume of sales. He lived moderately, had two lovely children, was respected in the community and was considered a valuable employee. After assuming the position of Manager of the branch store, he was called to the main store and questioned about some of the purchases of the notions department. The following day he went to Sears Roebuck, purchased a shot gun, drove to a hill on the outskirts of Los Angeles, wrote a most pathetic note to his wife and shot himself. There is no trace of what he did with the $73,000 he stole, but there are numerous indications now that he was living beyond his means. Fortunately for the employer, the amount of bond was sufficient to cover his monetary loss.

In another case, we bonded a Vice-President and General Manager of a naval stores company. This individual asked his employer to bond him for $25,000. Investigation disclosed that he had gone through bankruptcy ten years before but there was no evidence of dishonesty. Less than one year later his employer discovered that there had been manipulation of warehouse receipts. This caused an investigation which revealed the guilt of the bonded executive. The loss amounting to $71,950 was only partially covered by the bond. The company is now bankrupt as a direct result of this defalcation.

Perhaps the most fascinating case of all is the Wilby case. In 1939, a man by the name of Ralston was hired by an automobile agency in San Francisco. He had a good record, lived quietly, was a good husband and respected in the community. One day he resigned stating that he was moving to San Diego to open his own automobile agency. Several months later, an audit of the San Francisco agency disclosed a shortage of $10,000 which had been so carefully concealed that determination of the exact amount was most difficult. The loss was traced to Ralston, who was arrested, pleaded guilty and made restitution of about $1,500. The police investigation revealed:

1. That Ralston's right name was Wilby
2. That he was a much better than average accountant
3. That he was a Canadian citizen
4. That he had been found guilty of embezzlement in Norfolk, Virginia; deported to Canada; that he had left wives in Norfolk and Canada. On his promise to return to Canada and stay there permanently he was given a suspended sentence on the San Francisco charge.

However, Wilby had a penchant for the U. S. A. Three months later he returned to New York, secured a job as an accountant and married his fourth wife. This time he had big plans. He inserted a want ad in New York papers for an accountant. As a result of this he secured several resumes which gave him names and employment records. The one accountant he made every effort to hire turned the job down because he was enlisting in the Canadian army. The man's name was Hume. With the latter's dossier Wilby secured a position as a traveling auditor with an organization which does the buying for a large chain of department stores. This employment began in 1940 and in 1941 he was promoted to an accountancy position in the New York office. His employer had spent thousands of dollars installing what he believed was an unbeatable system. It certainly was not unbeat-

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that too much is being spent for wardrobe, children's expense, or maybe yachts, the business manager comes to the fore with all his reputed conservatism and states emphatically, "No more yachts, no more vacations, no more Cadillacs, until . . ." This type of management tends to cause clients to rely on the business manager's judgment.

Assuming these responsibilities and doing a competent job requires good judgment, sufficient formal education, and years of experience on the part of the business manager. He does not practice law, but he must know law to the degree that an attorney will not have to spend months and the client's money ascertaining the facts before he can proceed with the case. Likewise, the business manager does not function as a certified public accountant, but he must know basic accounting procedure and tax law to enable him to present a correct income and expense statement, and prepare tax estimates and returns.

Clients call on him when they wish to purchase real estate. Hence, he must understand appraisal values, know types of neighborhoods, and be conversant with loan practice and interest rates. Always he must visit the property to see if the realtor has selected the right land and/or building for his client. Beautiful rose gardens may attract his client but he must look for termites and see if the plumbing is efficient.

Furthermore, the business manager is often expected to know where uranium can be found, which well in Texas will produce the most oil, which stock is going to double in value, and where one can view the most scenery, or catch the largest trout on a vacation.

Business management in the entertainment field is exciting and interesting. As a sculptor molds a piece of clay into an object of beauty, the business manager tries to mold the assets of an individual or a family into a structure which gives security and peace of mind to its owner, promotes good citizenship, and forms a firm foundation upon which to build the family's future.

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able to Wilby, alias Hume.

Hume created several fictitious companies, all located in New Jersey. Each had an office and a bank account. His system simply called for drawing checks payable to the fictitious concerns for non-existent merchandise. These checks were mailed to locations in New Jersey. Each Saturday he went to his offices there, cashed the checks and returned home, ready to go to work on Monday. This continued through 1942 and 1943.

During this period the F.B.I. was investigating firms with foreign names. They called to see Hume to find out what he knew about a New Jersey concern with a German name which had a large checking account in a New Jersey bank but which apparently had no physical plant. Hume handled them as best he could but became worried. He was granted a vacation and left for Canada. Some weeks later his employers received a wire stating that Hume had met with an accident. When they tried to contact him he could not be located. His employer's suspicions were aroused and a long expensive audit ensued. The loss? $386,921. The bond amount? $300,000. Hume's penalty? Five to seven years.

Catastrophic losses, such as these, are an ever present possibility but "mine run" losses are also an ever present reality. Because these result from many causes, their extent can never be measured. The strictly honest employee today may be the dishonest employee tomorrow because of circumstances. Generally, the defaulter is not a thief at heart nor a criminal by nature. He is an average individual. He or she looks just about like anyone who reads this.

What can business do about it? Certainly, the minimum safeguards should include:

1. Purchase of blanket fidelity bond covering all employees
2. At least annually, a C.P.A. audit which is more than just a balance sheet audit
3. Internal safeguards such as these:
   a. A single employee should not be assigned to handle all phases of any financial transaction.
   b. Countersignature on all checks should be required.
   c. The person in charge of the stockroom should not take inventories.
   d. Rigid pre-employment character investigation should be made.
   e. Outgoing packages should be inspected periodically to verify contents and see that they are properly recorded and charged.
   f. Control of scrap and damaged materials should be exercised. The possibility of usable goods being taken out as waste material should be guarded against.
   g. The bookkeeper should not be permitted to process invoices and statements for payment until they are approved by the proper authority.