



Case Examples in Employee Theft and the Role of a Forensic Accountant

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Employee theft is as common as there are businesses. There likely is not a business that has not been victimized from the inside. The size of the thefts range from miniscule (and undetected) to massive. Large thefts are generally perpetrated by employees in a position of significant authority based on years of relationship with the key personnel in the organization (owners, management, etc.). The following are short descriptions of two real cases requiring contact with a forensic accountant to identify, quantify, and terminate a theft scheme. Both of the cases described could have been prevented with the effective implementation of simple generally known internal controls and procedures.

Background Checks

A large company with operating divisions all over the country began to suspect that a division manager was stealing money and inventory. The Board of Directors and corporate counsel retained a forensic accountant to quietly commence an investigation. The board was concerned that if the embezzlement was taking place some or all of the auditors may know about it and were looking the other way. The alternative was that the theft was happening right under the nose of the auditors and then their competence was in question.

The initial meeting with the investigator and the board went a little differently than the board expected. The conversation was more about the personality and office relationships of the employee than it was about accounting. The forensic accountant was developing a profile of the employee and it quickly became apparent that, if the theft was happening, the employee had probably done it before due to the fairly sophisticated nature of the company's system of internal controls. The forensic investigator asked to see the personnel file of the employee and quickly determined that there was no background check nor were any of the references confirmed when the manager was hired. Further, it was noted that there was a three year gap in the work history provided by the employee – which also had been ignored.

That evening, a simple search on the internet led to some solid leads indicating a formal background check was necessary. Within 12 hours the full story was known. The employee had convictions in several states for a wide range of white collar crime culminating in the prison sentence. The three year gap in work experience coincided with a state prison sentence for embezzlement.

A simple background check or even just a few curious questions in the interview with a prospective employee could have prevented the need for a forensic accountant. The loss in this matter was several hundred thousand dollars.

Check Signing

A large business had been in operation for several generations. It was family owned and the several hundred employees would say that it was like working for a family. The owners worked in the business and had a well-known reputation in the community for integrity, honesty, and



generosity. The owners trusted their employees. It was the culture of the company and they were proud of it. That policy had never failed them.

Everyone loved the new bookkeeper immediately when he was hired. He was from a good family and was referred to the owners by several key employees that knew him from church. He was a quiet, engaging, and competent person. He got answers when they were needed and never missed deadlines. As time went on, he became the most trusted employee in the business. His responsibilities grew to fit the title of controller. His pay was increased as his responsibilities increased. As the owners grew older they became interested in reducing their day-to-day involvement in the business. Several changes were made including the transfer of all check signing authority to the controller. Signature plates and unused check stock were given to the controller for safe keeping. Signature cards were updated to include the controller's authorization to sign checks. User names and passwords for all bank accounts were entrusted to the controller.

By the time a forensic accountant was called into this business there was practically nothing left of the business. All the warning signs of trouble were ignored. In fact, when one family member expressed concern about the integrity of the controller, they were virtually ostracized by the rest of the family. Nobody would or could believe that the controller would do anything to hurt the business or the owners. When it became obvious to everyone in the business that there was a problem (the day the controller disappeared) there commenced a mad scramble to figure out what was going on. The loss was so complete and so definitive that the forensic accountant almost immediately stepped away from the investigation – there was no benefit to incurring fees to quantify the loss.

With the delegated check signing and banking access authority, the trusted controller cleaned out the business in small amounts over an extended period of time and then, when the scheme became too much effort to continue and conceal, he spent a weekend finishing off the company. By Monday morning there was literally nothing left.

Simply separating the check signing authority from other functions would have made this case end a lot differently. There remains a warrant for the controller's arrest and the business is gone. The fraud was so obvious and brazen that law enforcement needed no assistance from experts to make the case. It is expected by all involved that the perpetrator will not be caught and the money will not be recovered.

Does Your Client Need an Employee Theft Investigation?

Arxis Financial employs trained professionals who specialize in the detection and prevention of employee theft. Our forensic accountants assist in determining whether employee theft occurred, and if so, to estimate the extent of monetary loss or damages and to determine who committed the fraud.

Arxis Financial utilizes various investigative and analytical procedures to:

- Support criminal or civil actions against an individual(s)
- Provide evidence for insurance claims
- Form a basis for termination of a dishonest employee
- Uncover hidden assets in bankruptcy or divorce situations



Typically, these investigations involve review of documentation and electronic evidence, then organizing and managing these documents to aid in further analysis. Interviews may be required of employees and others with specific knowledge of the transactions, aimed at exposing such theft schemes and helping to expedite recoveries when possible. Finally, we support the litigation process by working with attorneys to evaluate evidence and then provide expert testimony. If you have questions about a client matter involving employee theft, contact Chris Hamilton at Arxis Financial.

About the author:

Chris Hamilton is a partner with the CPA firm of Arxis Financial, Inc., in Simi Valley. He is a member of the California Society of Certified Public Accountants (Litigation Services Committee), and the American Institute of Certified Public Accountants. Mr. Hamilton is a Certified Public Accountant, a Certified Fraud Examiner, a Certified Valuation Analyst, and a Diplomate of the American Board of Forensic Accounting. He can be reached at ph. 805-306-7890 or chamilton@arxisgroup.com.