

Embezzlement 101

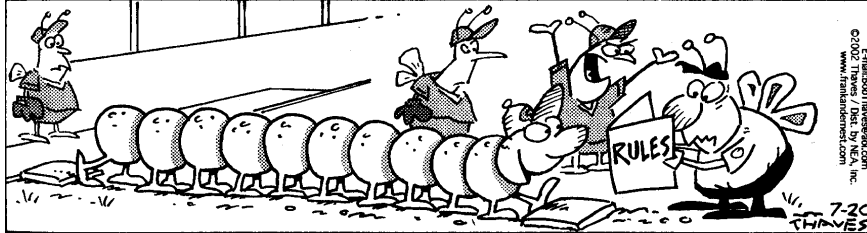
**How To
Embezzle From
Your Employer**

And NOT Get Caught



Section I - How To Do It
Section II - How To Detect It

Frank and Ernst Bob Thaves



“A recent study found that business school education not only fails to improve the moral character of the students, it weakens it. ...students were asked, if given a chance of being caught and sent to prison, they would attempt an illegal act that would net them a profit of more than \$100,000; more than one-third responded ‘yes’.”¹

Patent Pending

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Auditor's Inc.—Disclaimer Note

The below “warning and disclaimer” is from our attorney. As attorneys go, he is a good person and a very good professional. It is his job to protect us to the extent that the law allows from those of you who would use the content of this guide illegally, or perhaps even from those of you who would fall prey to an “ambulance chasing” litigator. Our attorney actually amused us with the many possibilities that we might be opening ourselves to from litigious, money-grubbing, bottom feeders (aka attorneys [our words-not his]) who know how to entice people with otherwise good sense into suing companies such as ours that are only trying to help companies such as yours. We ask that you follow the recommendations in this guide and that if you have any questions whatsoever, that you contact us so that we may assist you.

Auditor's Inc. Plea

It is our sincere desire to provide small business owners with simple and useable tools to protect themselves from those who would *steal them blind*. We have worked hard and diligently in this effort—please do not compound the problem by forwarding the actual content of this guide to others, thereby, by passing payment for the guide—in other words, **please do not embezzle from us**. We have worked as hard in this effort as you have worked to make your company a viable entity. The revenue generated by this guide will be used to put our kids through school; not for south sea cruises.

Warning and Disclaimer

Every effort has been made to make this book as complete and accurate as possible, but no warranty or fitness is implied. The information provided is on an “as is” basis. The author(s) and the publisher shall have neither liability nor responsibility to any person or entity with respect to any loss or damages arising from the information contained in this book or from the use of the CD or programs accompanying this book.

Despite the implication of the title of this work, the author(s) and the publisher present the information to protect business owners from embezzlement. The author discusses methods, procedures, and/or ideas to educate business owners who might otherwise fall victim to one or more of the described schemes. The author(s) and the publisher warn readers in the strongest possible terms that improper use of the information and programs contained in this book can lead to harm and urge readers to solicit professional assistance in implementing any suggested procedures.

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SECTION I

**HOW TO DO IT - TRIED AND
TRUE EMBEZZLEMENT**

Introduction

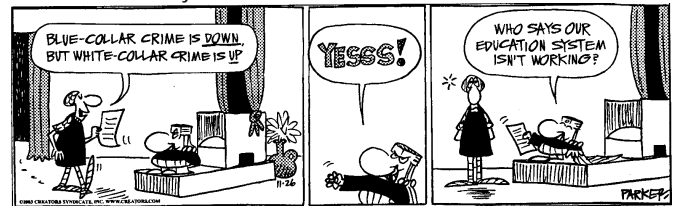
Congratulations, you have made the decision to embezzle, steal, misappropriate, lift, pilfer, pinch, misuse, and cheat—whatever word you choose, you have decided to do the deed. Or perhaps, you haven't yet made the decision but you are just curious how it is done. Either way, you're here.

Next we need to make sure that you are qualified. Qualified you ask? Yes indeed. To do the deed and get away with it, you must have a certain amount of bookkeeping knowledge.

- **First assumption**—minimally you must be an experienced bookkeeper.
- **Second assumption**—you believe that your employer should share the fruits of his/her labor with you, who have so willingly given of your time and hard labor. After all, when would s/he have had the time to grow the business if it weren't for you?
- **Third assumption**—you have chosen a good target employer defined as:
 - Employer who is very busy growing the business
 - Employer who doesn't focus on the numbers
 - Employer who intensely dislikes adding 2+2
 - Employer with a small administrative staff and preferably one bookkeeper

Why a small administrative staff and preferably one bookkeeper? Because a small administrative staff preempts what is known as *division of labor* or dividing the tasks so that there is more than one hand in the pie, thereby (excepting collusion) making stealing a difficult task. A small business owner is happy to be able to afford a bookkeeper at all, much less worry about their CPA's recommendation of division of labor to prevent embezzlement. Oh yes, the CPA makes a number of recommendations but we are going to show you how to get around every one of these.

The Wizard of ID by Parker & Hart



To do the deed and get away with it, you must have a certain amount of bookkeeping knowledge.

PREEMPTING CPA RECOMMENDATIONS TO SMALL BUSINESS OWNERS

Below is a partial list of recommendations made by CPAs to prevent embezzlement. And except for a couple of recommendations, we have omitted those that are impractical for the small business owner:

- Division of labor
- Bank statement sent to the home
- Employer opens bank statement
- Employee takes regular vacations
- Employee background and credit check
- Purchase fidelity insurance
- Establish a positive corporate culture and code of conduct
- Develop internal controls
- At least two employees must open and close the office
- Watch employee's life style
- Positive pay procedures offered by banks
- Etc., etc., etc., etc.

Don't worry about the above recommendations. You can circumvent each and every one of them. Please read below:

- **Division of labor**—dividing tasks amongst multiple employees so as to prevent any illegal activity. If the company is anything but small, this would be easily accomplished. If done correctly, this is probably the most reliable way to prevent embezzlement. However, small companies are lucky to be able to afford one administrative and/or bookkeeping employee much less multiples. So, don't go to work for a company that has an accounting department . . . avoid employment ads that advertise, "staff accountant/bookkeeper." Stick to the small business owner.
- **Bank statement sent to the home**—this allows the business owner the opportunity to be the first person to open the bank statement thereby preempting any manipulation of enclosed documents (checks) and being able to peruse checks for forgeries. Of course, banks are beginning to phase out the return of actual checks and forgery with today's modern technology is easily accomplished. One of our staff was once presented

with two documents that appeared to be identical, one bearing his actual signature and the other a forgery. He was asked to identify the forgery—he couldn't!

- **Employer opens bank statement**—see “Bank statement sent to the home.”
- **Employee background and credit check**—the employer is looking for an employee who is in debt or has been in trouble with the law. So, you want to be sure that a background check reveals a “squeaky-clean” you. Two things to consider: 1) If you are stealing, you probably are not in debt. 2) The majority of employee theft goes unreported. If you have been caught in the past because you got sloppy, you were most likely not prosecuted, but rather allowed to repay the owner and go on about your way.
- **Purchase fidelity insurance**—this will help to cover the employer's losses but doesn't do a thing to detect embezzlement.
- **Establish a positive corporate culture and code of conduct**—in English this refers to teaching employees to *do the right thing*. Teachers are having a hard time teaching students to *do the right thing* (cheating has become epidemic in schools) and most parents are too busy to take on the task. So, perhaps those in the know think another stab at it will do the trick. As if such a culture/code could deter someone who is hell bent on stealing. Even if you aren't originally hell bent on stealing, after you fall behind on paying a few bills, the easy money becomes very attractive and hard to resist.
- **Develop internal controls**—this is loosely related to division of labor. First, the average small business owner wouldn't know an internal control if it pinched him on the fanny. Second, he most likely regards “internal controls” as a project that he will get around to when he has some extra time. And third, because the dynamics of a small growing business are constantly changing, the controls must be constantly updated, (again requiring more time). Pretty soon internal controls are trashed.

Teachers are having a hard time teaching students to *do the right thing* (cheating has become epidemic in schools) and most parents are too busy to take on the task.

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- **At least two employees must open and close the office**—we think we covered this under the heading of *Division of Labor*. We can see it now, “No, Mary Jane, you can’t work late because there isn’t anyone else to close the office with you.” Oh yeah, that will end very soon!
 - **Watch employee’s life style**—this is where you need to be very careful. The money you are stealing cannot show up in the new car you drive to work nor in any way visible to your employer and few co-workers. Play it low key. Open a Swiss bank account!
 - **Positive pay procedures offered by bank**—this is a new feature being offered by banks and will protect your employer from outside embezzlement, but not from you. The bank calls each day with a list of checks clearing the business account, because you are the one doing the stealing, you will obviously clear all checks called in! DUH!!!!!!
 - **Etc., Etc., Etc.**—to put it simply, if you are smart about it and not sloppy, you can embezzle and not get caught. Statistics show very clearly the overwhelming majority of embezzlement goes uncaught. So, relax and learn to follow the tried and true methods used by successful embezzlers.

Tried and True Methods

ITEMS FOR CONSIDERATION

First, whichever method you choose, you must be very methodical and organized. Lose track of what you are doing and you might as well turn yourself in. And as we said previously—it bears repeating, the monies gained in your endeavors must not be apparent in your life style. In other words, keep a low profile.

Second, understand that by embezzlement, we are not referring to the use of the company copy/fax machine, the company's long distance telephone service, or the taking home of a few pencils or note pads. We are talking about the theft of sizable cash assets—something that will pay your bills or afford you something that you covet. Whatever the reason you choose to embezzle, that is between you and your conscience. That is not our concern here.

. . .the monies gained in your endeavors must not be apparent in your life style. In other words, keep a low profile.

Third, the methods prescribed below are relatively simple. KISS—keep it simple stupid applies here. The more complicated the method, the harder for you to track, and pretty soon you don't know what is real and what is fictitious. And, you will eventually be caught—so KISS! But, you say, if it is simple, won't my employer catch on? Keeping it simple keeps everything in order and as long as you don't put your employer into bankruptcy through your embezzlement, s/he won't know what is going on. After all, you are their right-hand person and s/he wants and needs to trust you.

The last consideration in the embezzlement methods prescribed in the following pages is the types of financial transactions in everyday small business bookkeeping. These transactions are inherently simple. So, you are inherently restricted to the recommended forms of embezzlement.

TRIED AND TRUE METHODS

The following pages list methods of embezzlement available to you along with the pros, cons, and details to be considered with each method:

Company checks made payable to vendor

- Most companies have at least one vendor with which they do a lot of business.
- Contact your local state's business licensing department and tell them that you want to secure a license to "do business as." Use the vendor you choose as your "DBA" name. Most states will fax you the application and allow you to expedite the process by return fax.
- Take the "DBA" license to the bank of your choice and open a sole proprietor account. (Examine the back of the endorsed vendor check you choose to make sure you are not using the same bank.)
- Now that you are set up to deposit the checks you will be embezzling, write a company check to the vendor in payment of a previously paid invoice. (Be sure it's about a couple of months old—your employer is not going to remember that the invoice was previously paid.) Endorse the check on the back with a professional looking deposit stamp, as would any legitimate business. Deposit the check into your DBA account. (Remember, the details are important.)
- One other slant on this method—let's say you are paying a legitimate vendor invoice with your company check # 1. You can order a duplicate set of company checks with the same check numbers. Take the duplicate check #1, pay the same invoice and forge the signature with your signature stamp. Hold the check until the original has cleared the company bank account, and then deposit the duplicate into your phony account.
- In case you are wondering, because all banking is automated, the bank does not take notice of duplicate check numbers. We have even known banks to deposit copies of checks.

Company checks made payable directly to you

- Simply cut a company's check made payable to you and deposit into your personal checking account.
- You can forge the owner's signature yourself by using a stylus for the imprint or you can order a good signature stamp. (It is virtually impossible to determine the forged signature from the real one.)

Warnings:

- Does your bank return the physical checks?
- If so and if your employer is the first person to open the bank statement, do not use this method.
- If your employer closely scrutinizes the bank statement, do not use this method.

Deposit customer checks received into your DBA account

- If you haven't already, open a DBA account in the same name as the company for which you are the bookkeeper.
- Deposit checks received in payment of your company's invoices into your DBA account. (Remember to use a professional looking endorsement stamp just in case the company's customer scrutinizes the checks.)
- Post the invoice as paid, but make sure that the debit is to an account other than the company's bank account.

Double billing a customer

- You would be surprised how many customers double pay invoices. You would obviously post the original payment correctly. And, the double payment would go into your DBA account.
- If the customer calls to inform you of the double billing, just apologize for your *error* and move on.
- One word of caution: do not repeat this method too many times for the same customer.
- Oh, did we tell you that you could have several DBA accounts? The state does not restrict you to the number of DBA accounts you open.

Credit card transactions

- If your company uses credit cards for everyday purchases, you may also embezzle by using your company's credit card to make personal purchases.
- Be careful to make purchases that are in line with the dollar value of other purchases and be careful to use the same vendors used by your company. In other words, unless your company routinely charges purchases from Macys, it probably wouldn't be too wise to do so yourself.

If however, your company routinely charges purchases from Office Depot, you can do so for your personal purchases and your company's owner will not notice.

Petty Cash expenditures

- Does your company use a lot of petty cash? If so, this is another method of embezzlement. It is not likely that your employer will examine every receipt attached to the petty cash reimbursement. So, go ahead and use receipts twice (being sure not to be too obvious about it) and pocket the additional cash.

Note:

- The above two embezzlement schemes (Credit card and petty cash) represent petty embezzlement. It is not likely that you will be able to pilfer major amounts of money through these methods.

How to Hide the Above Transactions

Hiding the above embezzlement transactions does not involve slight of hand, but rather a methodical, educated knowledge of bookkeeping debits and credits.

The most common method of hiding these transactions is via journal entries to either "cost of goods sold" or other accounts that handle large dollar amounts. There may be times when journal entry transactions will have to be forwarded and back-loaded into statements as reports are being requested by your employer. The point is not to call attention to accounts that normally do not get a lot of volume.

And the last point to make is again—

Do not do anything that will call attention to you.

The amount to be embezzled should take into account the size of your company and what you think they will not miss under normal circumstances. Also to be taken into account are seasonal changes, growth spurts in the business, and the economy.

Be methodical and organized in your record keeping.

Following the above will almost guarantee you success in your embezzlement. Why the use of *almost*? Because nothing is guaranteed to you except death and taxes.

Epilogue

SECTION I: HOW TO DO IT was written as an afterthought—after SECTION II: HOW TO DETECT IT was completed. In fact, Section II was always meant to be the entire guide. However, it was brought to our attention that the marketing of what is now Section II would be very difficult without something to *catch the eye* of the small business person who is already inundated with supposed business expertise.

SECTION I was an easy, albeit awkward, write. All we had to do was distill and incorporate our thinking of over 60 years of combined bookkeeping experience and then reverse our thinking into the tried and true methods of embezzlement.

If you think the preceding pages of embezzlement schemes are all inclusive, you are mistaken. For every scheme that is uncovered, a new one is being made ready to make its entrée.

If the past few years of financial section headlines have taught us anything, it is that new schemes are forever abundant!

So, with which defense can small business owners arm themselves? The very numbers that are used to steal from you can be used in your defense if they are organized in some very SIMPLE methods—easy enough for your kids to do—HONESTLY!! If you can count, you can detect embezzlement and save yourself heartaches and headaches.

If you received SECTION I—HOW TO DO IT as a handout or download and you want to learn how to protect yourself with SECTION II—HOW TO DETECT IT, you may purchase the guide in its entirety from www.embezzlement.com or if you are numbers and detail averse, we can take the work out of your hands with our FORENSIC BOOKKEEPING EXAMINATION™. The website also contains many more interesting tidbits about the subject of embezzlement. We are also

Rhymes with Orange by Hilary Price



Frank and Ernest by Bob Thaves



available to consult with you regarding your particular circumstances. However, in 99% of all cases, SECTION II—HOW TO DETECT IT will provide you with the information you need to protect yourself.