

Someone Really *Is* Stealing The Taxpayers' Money

“Yes,” affirmed the auditor, “you are correct. An employee has been, is, or will be stealing from you.” This conversation took place about 30 days after the following press release had been issued:

On Monday, February 13, the city manager notified the council that city staff had uncovered an alleged embezzlement by an employee in the city's finance department.

The city manager praised city staff and the financial controls in place for bringing the matter to light. According to the manager, the city . . . has a competent staff and good financial controls in place. That is why [it was] able to uncover this theft. Financial controls serve as a deterrent and ensure that wrongdoers will be caught. . . .

The alleged embezzlement is believed to approximate \$20,000 and was carried out by altering revenue receipts. The city's outside auditing firm has been brought in to review city records. The firm will be issuing an independent report later this month.

The city expects to recover all of the funds, either from the alleged embezzler or from the insurance company that provides bonding coverage for all employees.

(Readers should note that the city did recover all of the embezzled funds.)

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Managers

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The Danger

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Signs

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**Daniel Hobbs
And
Richard Costantino**

Been There and Seen It

Over the past 27 years, I have worked in six local governments with reputations for good government and outstanding financial management. Yet in each government at one time or another, an employee has tried to rip it off by stealing the taxpayers' money.

In my third management position, the employee taking the money was the finance director himself, who had been an employee of the city for 15 years. He embezzled more than \$70,000. Because he had established many of the financial safeguards himself, he thought he could beat the system, and he nearly did, except for a persistent auditor who followed up on a minor discrepancy. The finance director was caught.

At the time when I started employment in my fourth city, a scandal was breaking in the municipal court, where clerks had been accepting payoffs for fixing tickets. Four years later, when I moved to another management position, another scandal was uncovered involving the municipal court, where clerks again were taking payoffs for fixing tickets.

In the fifth city, customers had suspicions about the cash management activities of the acting director of an enterprise fund. Sure enough, as soon as a new director was hired, revenues went up.

Food for Thought

Having been involved in the above examples, I have gained some insights that I would like to share with readers. In most instances, it appears that the embezzler is the average working person, just like you or me. Embezzlers are well liked, ambitious, have earned people's trust, and generally have no previous criminal record. They must have these personality traits, or they would not be placed in positions of trust with the opportunity to break the law.

Employees who are involved in

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these actions do not view them as crimes; they rationalize their behavior by believing (1) that this is a dishonest world and they are just getting their fair share; or (2) that they are getting even for not getting a raise or promotion; or (3) that they are collecting "points" for doing their jobs beyond what is expected of them. Some consider embezzlement to be borrowing because they intend to repay the money. They do not view it as a personal act against someone or something, as a robbery is, but rather as an inconsequential act that has no effect on the government's deep pockets.

The first factor that leads an employee to steal is motivation. Motivation takes the form of need or greed, whether perceived or real. Often, this motivation is a personal and private financial problem arising out of such causes as a divorce, living beyond one's means, business failure,

or a tragic medical problem. *Motivation cannot be controlled.* It exists without our influence as managers.

The second factor leading to embezzlement is opportunity. Usually, the embezzler is in a position of trust, with no one checking them closely or monitoring their activities. They see an opportunity in which it is easy and safe to steal, the risk of getting caught is low, and it seems worth the chance. They also may perceive the punishment as minimal if they are caught. *Opportunity can be controlled.*

Embezzlement is an insidious crime. A manager may never know when to suspect it, how it will be done, who will do or has done it, and how much money will be or was lost. Many managers already have been the victims of an embezzlement and do not know that it has happened; some managers might be becoming victims as they are reading this article. But most managers will have this experience sometime in their careers.

Develop a Strategy

Here are some suggestions about what to do when embezzlement is suspected in an organization.

The elected officials' and manager's attitudes must be conducive to a strong control environment. Management must place a high value on employee integrity and must let employees know that the risk of getting caught is high. Employees need to be aware that management is concerned about financial controls and that they are being monitored. This sense of monitoring should not be so extreme as to cause morale problems; rather, it should use the concept that management wants to *keep* honest people honest.

All reasonable financial controls and measures must be put in place. This should be done to the extent that the

cost or burden of the control does not exceed the amount of funds being protected from theft or fraud.

At a minimum, a CPA firm should review the previous year's financial transactions. This precaution is required by many local governments, either by local charter or by state law. Recognize the limitations of an annual audit. An audit reviews a sample of transactions. In the previously cited case in which the finance director was doing the embezzling, the auditor just happened to stumble on a particular transaction in his sampling that appeared inconsistent. Otherwise, the embezzlement would have gone undiscovered.

An irregular, unannounced system of surprise mini-audits should be set up. Look at all situations that take in or handle cash. The embezzlement referred to in the press release occurred even though audits had been instituted. But as city manager, I felt much better about having had this additional tool in place to show that attention was being paid to financial management.

A strong system of ad hoc auditing can send an important message to employees that they are likely to get caught if they steal. This awareness may give additional backbone to otherwise weak-willed or financially strapped employees looking for a financial shortcut.

Require that employees take annual vacations during which someone else performs their duties; periodically rotate assignments. Often, the people stealing cannot afford to take time off because they must cover up their tracks constantly, or they do not want someone else looking at their work.

Put a competent, credentialed, proactive financial manager in charge of a local government's treasury. This manager should have a full appreciation of the importance of


the annual audit, of ad hoc audits, and of proper internal controls and should have a zero tolerance for sloppy financial transactions.

Act swiftly and forcefully if embezzlement does happen. Let employees know that there are bad consequences to embezzlement and that stealing will not be tolerated.

Do Not Be Excessive

A manager cannot afford to tie up an organization with excessive control policies and procedures. Put in place only what is needed to set a tone and to protect financial integrity. Excessive financial controls are expensive and require the employment of too many staff.

Even implementing the above suggestions will not make a locality immune from embezzlement. Always be aware of the warning signs that embezzlement may be occurring, making sure that complaints are investigated, checking on anything that seems suspicious, or looking into an unusual event or at a person who is doing something out of the ordinary.

Managers don't like to admit that embezzlement has taken place or to talk about the crime. But chances are that "someone in your organization is stealing from the taxpayers." 

Daniel Hobbs is city manager, Greenbelt, Maryland, and Richard Costantino is a certified public accountant, Keller Bruner & Company, Greenbelt, Maryland.

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