



# Criminology and Employee Fraud

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Course #1102A

Auditing

2 Credit Hours

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# CRIMINOLOGY AND EMPLOYEE FRAUD

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White-collar and economic crime are not legal terms. In criminology, they refer to a wide variety of offenses. This course covers various types of crime and corporate illegal behavior. It also covers various employee fraud schemes.

## LEARNING ASSIGNMENTS AND OBJECTIVES

*As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.*

### SUBJECTS

#### **Criminology Related to Fraud Employee Fraud**

Study the course materials from pages 1 to 60

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

#### **Objectives:**

- Identify various types of crime and corporate illegal behavior.
- Identify various employee fraud schemes.

#### **NOTICE**

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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Program publication date 1/28/19

## EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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# CHAPTER 1: CRIMINOLOGY RELATED TO FRAUD

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## Chapter Objective

### After completing this chapter, you should be able to:

- Identify various types of crime and corporate illegal behavior.

White-collar and economic crime are not legal terms. In criminology, they refer to a wide variety of offenses. The major common elements of such behaviors are: (1) They grow out of occupational efforts in business, politics, and the professions, and (2) they rarely involve force or threat of force. Perpetrators typically do not seek out their jobs to commit crime. Their lawbreaking typically occurs after they are confronted with temptation or faced with circumstances they believe they cannot satisfactorily resolve in any lawful manner.

Economic crimes can be defined as acts in violation of civil and criminal law designed to bring financial reward for the offender. These are crimes against property, not crimes characterized by force or violence against people. Most criminologists have noted that property crimes are treated with indifference by the average citizen compared to violent crime. Studies suggest that nearly every person has participated in a theft of some sort: petty shoplifting, cheating on income taxes, stealing a book from a college bookstore, or pilfering from a place of employment. Another reason for the public's tolerance is the belief that economic crimes "really don't hurt anyone." Mild punishment for economic crimes is common.

## AMATEURS AND PROFESSIONALS

Much economic street crime is caused by occasional criminals. Their decision to steal is largely related to opportunity, and these thefts are neither well planned nor well-executed. In addition, included in this group of amateurs, are the millions of occasional thieves who earn their incomes legitimately, but engage in such activities as shoplifting, pilfering, and tax fraud.

Occasional property crimes occur when people have an opportunity or situational inducement to commit crime. Opportunities are available to all members of all classes, but members of the upper class have more opportunity to engage in lucrative business-related crimes.

Professional thieves make the bulk of their income from law violations. Most are not deterred by the law, and many are very skilled at their craft. Not a great deal is known about the professional thief, except that three types of offenders can be identified. One group is young people who are taught the craft of theft by older professionals; another is gang members who continue their thefts after maturing out of gang activity; and the third category includes youths who are incarcerated for minor offenses and learn the techniques of professional theft while in prison.

"Organized crime" is a special case. It is a conspiratorial activity, involving the coordination of many people in planning and executing illegal activity or in the pursuit of a legitimate activity through unlawful

means (for example, using threats to secure a stake in a legitimate corporation). Organized crime involves continuous commitment by primary members, although individuals with specialized skills (such as contract killers) may be brought in when the need arises. Organized crime organizations are usually structured along hierarchical lines—a chieftain supported by close advisors, and then lower echelon members.

Organized crime has economic gain as its primary goal, though achievement of power and status also may be a motivating factor. Organized crime is not limited to providing illicit services. It includes such sophisticated activities as laundering illegal money through legitimate business, land fraud, and computer crimes. Most organized crime income comes from narcotics distribution, loan sharking, and prostitution. However, billions of dollars are gained from white-collar crime, gambling, theft rings, pornography, and other illegal enterprises.

Until fairly recently, federal and state governments did little to combat organized crime. One of the first anti-organized crime measures was the Interstate and Foreign Travel or Transportation in Aid of Racketeering Enterprises Act (the Travel Act). The Travel Act prohibits interstate facilities and interstate commerce with the intent to promote, establish, carry on, or facilitate an unlawful activity. In 1970, Congress passed the Organized Crime Control Act. It provides for special grand juries in localities where major organized crime appears to be active. It also creates a general federal immunity statute whereby a witness can be ordered to jail for 18 months for refusal to testify, after having been granted immunity from prosecution for specified offenses.

People acting alone or in small groups are basically amateurs. The “organized criminals,” popularized by the government and the media, are the professionals.

## **WHITE-COLLAR CRIME**

Most fraud is “white-collar crime.” Scholars differ widely in their definitions of white-collar crime. The Dictionary of Criminal Justice Data Terminology, published by the Bureau of Justice Statistics, defines white-collar crime as:

“non-violent crime for financial gain committed by means of deception by persons whose occupational status is entrepreneurial, professional or semi-professional and utilizing their special occupational skills and opportunities; also non-violent crime for financial gain utilizing deception and committed by anyone having special technical and professional knowledge of business and government, irrespective of the person’s occupation.”

This definition may be incomplete in two ways. First, by limiting offenses to the course of persons’ occupational work, it overlooks other possible perpetrators and other possible violations. While many people can commit larceny in the course of their daily activities, only a few corporate executives can violate the Sherman Antitrust law. Second, the definition overlooks the role of the “criminal” corporation.

Several distinct differences distinguish street crimes/economic crimes from white collar crime. Opportunity is the first distinguishing characteristic. An unemployed poor youth without funds might turn to armed robbery. However a bank teller, who is also short of cash, might embezzle because a different

opportunity presented itself. Most criminals will commit crimes with which they are the most familiar, are the most easily accomplished, and have the fewest dire consequences. An often unheralded bonus of social status is access to opportunities for the less dirty, “more decent” kinds of crime.

### Public Perception of White-Collar Crime

According to some criminologists, the apparent increase in fraud is due to the lack of seriousness with which the public regards white-collar crime. However, some studies show that fraud-related offenses are perceived by the public to be as serious if not more serious than more traditional crimes, especially for white-collar violations that have harmful physical consequences.

Illustrating this point is a poll conducted by the National Survey of Crime Severity. Sixty thousand (60,000) respondents 18 years of age or older were given a list of offenses and each was asked to rate and assign a value to each crime. The survey results showed that both occupational and “common” crime are viewed as serious behavior, although the degree of seriousness varies with the offense. Fraud by a grocer and a ten dollar embezzlement are perceived to be as serious as an obscene phone call. A bribe accepted by a city politician and a \$1,000 armed robbery rate about the same. Table 2-1 shows the study results. (Note: This study was performed over 25 years ago; therefore, some of the dollar amounts listed seem insignificant. However, we believe the ratings would most likely still hold true today if the amounts were adjusted for inflation.)

#### **TABLE 2-1 NATIONAL SURVEY OF CRIME SEVERITY RATINGS: SELECTED OFFENSES**

(White-collar crimes in **bold**)

<b>Rating</b>	<b>Offense</b>
<b>1.9</b>	<b>An employee embezzles \$10 from his employer.</b>
1.9	A store owner knowingly puts “large” eggs into containers marked “extra large.”
1.9	A person makes an obscene phone call.
3.1	A person breaks into a home and steals \$100.
<b>3.2</b>	<b>An employer illegally threatens to fire employees if they join a labor union.</b>
3.6	A person knowingly passes a bad check.
3.7	A labor union official illegally threatens to organize a strike if an employer hires nonunion workers.
5.4	A real estate agent refuses to sell a house to a person of race.
5.4	A person threatens to harm a victim unless the victim gives him money. The victim gives him \$10 and is not harmed.
5.7	A theater owner knowingly shows pornographic movies to a minor.
<b>6.1</b>	<b>A person cheats on his Federal income tax return and avoids paying \$10,000 in taxes.</b>
6.1	A person runs a prostitution racket.
6.2	A person beats a victim with his fists. The victim requires treatment by a doctor but not hospitalization.
<b>6.2</b>	<b>An employee embezzles \$1,000 from his employer.</b>
6.4	An employer refuses to hire a qualified person because of that person’s race.