

A STUDY OF THE EMPLOYEE THEFT  
PROBLEM IN SELECTED MANUFACTURING  
ENTERPRISES AND PROPOSALS FOR  
CONTROL OF EMPLOYEE DISHONESTY

Thesis for the Degree of M. S.  
MICHIGAN STATE UNIVERSITY

Eugene M. Freeman

1963

THESIS

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AN ABSTRACT OF A THESIS

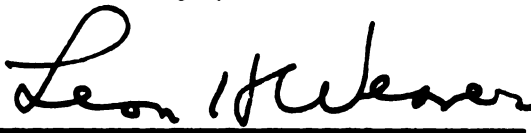
Submitted to  
Michigan State University  
in partial fulfillment of the requirements  
for the degree of

MASTER OF SCIENCE

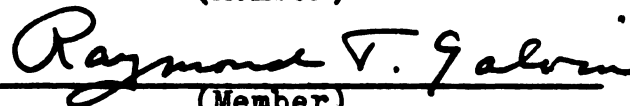
School of Police Administration and Public Safety

1963

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This study pertains to the policies and attitudes of management toward employee theft and dishonesty in business and industry.

There is an upward trend in dishonesty losses each year caused by the theft problem. The control of employee dishonesty is not always easy in today's economy. No business, large or small, is immune from dishonesty. A continuous effort by management is required to prevent their losses from spreading. If any reduction in dishonesty losses is to occur, attitudes require changing before management policies can be adopted to minimize the problem. Their attitude of complacency and indifference toward their losses, if allowed to flourish, will destroy the value of decency and fair play in today's economy.

The author visited twenty selected firms in the automobile accessory business to obtain management's views on the mounting theft and dishonesty problem in manufacturing enterprises.

A research methodology was designed to test the hypothesis that "management's policies and attitudes are significant factors in controlling or minimizing employee dishonesty." Interviews were conducted in the sample firms from the Detroit-Chicago manufacturing complex. The data collected were used to study the problem intensively in a





limited number of cases.

An evaluation of existing procedures utilized by business and industry to reduce dishonesty losses required further study to determine more about (1) management's attitude on the theft problem, (2) policies to protect funds and property, (3) internal control methods and techniques being used, and (4) the loss experience resulting from loose security operations. This evaluation was accomplished by a review of the literature pertaining to thefts, frauds, defalcations, and industrial security.

As a result of this study, it was concluded that (1) an effective security program requires a combination of internal financial controls and physical security; (2) security requirements vary among firms depending upon management's attitudes, needs, theft and dishonest loss experience; (3) some pattern of similarity in security control methods and techniques was found to exist in the firms surveyed; (4) security operation is not a cure-all for employee theft and dishonesty, but it will protect a firm from large losses; and (5) tighter security measures are required to protect business from dishonesty losses that cost billions of dollars annually.

Additional research is needed on the subject of employee dishonesty in business and industry; however, from the review of the literature and survey data, certain recommendations for security controls were proposed for manufacturing enterprises.

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## TABLE OF CONTENTS

Chapter	Page
I. INTRODUCTION. . . . .	1
The Problem . . . . .	4
Importance of the Study . . . . .	6
Definition of Terms Used in This Study. . . . .	7
II. METHODOLOGY . . . . .	16
Limitations of the Study. . . . .	20
Organization of the Remainder of the Thesis . . . . .	20
III. REVIEW OF THE LITERATURE. . . . .	23
Theories of Causation . . . . .	23
Fidelity Coverage, Dishonesty and Theft in Business . . . . .	26
Dishonesty and Theft in Industry. . . . .	33
Use of the Polygraph in Business and Industry . . . . .	38
IV. CASE STUDIES. . . . .	45
V. SURVEY RESEARCH FINDINGS--BASIC DATA. . . . .	57
Summary . . . . .	66
VI. SURVEY RESEARCH FINDINGS--POLICIES AND ATTITUDES OF MANAGEMENT. . . . .	69
Summary . . . . .	87
VII. SURVEY RESEARCH FINDINGS--CONTROL METHODS AND TECHNIQUES . . . . .	89
Summary . . . . .	105
VIII. SURVEY RESEARCH FINDINGS--LOSS EXPERIENCES. . . . .	108
Summary . . . . .	113
IX. SURVEY RESEARCH FINDINGS--RELATIONSHIP BETWEEN LOSS EXPERIENCES, MANAGEMENT'S POLICIES, ATTITUDES, AND CONTROLS. . . . .	115
X. CONCLUSIONS AND RECOMMENDATIONS . . . . .	125

BIBLIOGRAPHY. . . . . 137

APPENDIX A. . . . . 143

APPENDIX B. . . . . 145

APPENDIX C. . . . . 151

APPENDIX D. . . . . 152

## LIST OF TABLES

Table	Page
I. Spot Check Surety Bond Coverage and Loss. . . .	13
II. Location of Losses. . . . .	14
III. Theft Causes--Men . . . . .	42
IV. Theft Causes--Women . . . . .	43
V. Suggested Minimum Amounts of Honesty Insurance.	44
VI. Chart Showing Regional Distribution of Firms by Categories . . . . .	58
VII. Number of Years of Business Service at Present Location by Firms. . . . .	59
VIII. Total Number of Personnel Employed in Sample Firms. . . . .	60
IX. Years of Employment Service of Respondents. . .	61
X. Management Level of Respondents . . . . .	63
XI. Number of Personnel Assigned to Security Opera- tion . . . . .	64
XII. Years of Employment Service of Respondents in Management Position. . . . .	65
XIII. Internal Control Policies in Effect in Sample Firms. . . . .	70
XIV. Availability of Published Security Duties for Management in Survey Firms . . . . .	78
XV. Management Decision-Making Level in Dishonesty Cases. . . . .	83
XVI. Examples of Control Methods and Techniques in Sample Firms . . . . .	100
XVII. Past Theft Problems in Sample Firms . . . . .	103
XVIII. Loss Experience--1962--Sample Firms . . . . .	109

XIX.	Annual Dishonesty Losses of the Past Ten Years in Sample Firms. . . . .	111
XX.	Fidelity Bond or Honesty Insurance Coverage in Sample Firms . . . . .	112

## LIST OF FIGURES

Figure	Page
1. Comparison Between Security Control Policies and Security Methods and Techniques in Sample Firms . . . . .	119
2. Comparison Between Security Policies and Attitudes and Dishonesty Problem and Loss Experience in Sample Firms. . . . .	120
3. Comparison Between Loss Experience and Fidelity Coverage in Sample Firms. . . . .	121
4. Security Control Policies by Firms . . . . .	122
5. Security Control Methods and Techniques by Firms . . . . .	123
6. Comparison Between Security Control Policies and Attitudes and Dishonesty Problem and Loss Experience by Firms . . . . .	124
7. Operation Audit Sample . . . . .	135



## CHAPTER I

### INTRODUCTION

The opportunity and temptation to steal from business greatly increases as firms grow larger, new companies develop, and more items are placed on the market. In many instances, assets have grown faster than facilities for protecting them.<sup>1</sup>

We seem to be witnessing a serious decline in moral integrity caused by the opportunity given to employees for easy access to funds and merchandise because of loose systems of internal controls. Thus, the climate today is more favorable to dishonesty losses. The pressure of every-day living is weakening a person's resistance to the temptation of the dishonest dollar.<sup>2</sup>

"Values change, costs rise, exposures increase and that which was sufficient yesterday may be insufficient and inadequate today."<sup>3</sup>

Millions of dollars in dishonesty losses resulting from frauds, embezzlements, and other forms of fund and property thefts from business and industry are reflected in insurance company claims each year. The exact amount

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<sup>1</sup>"Hand in the Company Till," Newsweek (January 6, 1958), pp. 6-10, 45, 47.

<sup>2</sup>George A. Conner, "Dishonesty Losses" (Address made at 65th Annual Convention, National Association of Insurance Agents, Dallas, Texas, September 26, 1961).

<sup>3</sup>Peter A. Zimmerman, "How To Determine the Correct Amount of Fidelity Coverage," The National Insurance Buyer (March, 1958), pp. 1-4.

the same way as the other two, but with a different result.

The first result is that the first two cases are not the same.

The second result is that the first two cases are not the same.

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The twenty-eighth result is that the first two cases are not the same.

The twenty-ninth result is that the first two cases are not the same.

The thirtieth result is that the first two cases are not the same.

of these losses will never be known because these crimes are not treated equally in all firms. Some offenses are never uncovered; others are known, but not prosecuted; and others are merely absorbed in the company records as a business loss. Therefore, the resulting cost created by these illegal acts may reach several times the reported losses. This is startling when viewed by honest businessmen, taxpayers, and consumers.<sup>4</sup>

Estimates of theft in business and industry cover such a broad range that any assumption drawn from available figures would be hard to prove. However, the obvious conclusion is that the losses are sizable. In-plant thefts in industry alone were reported to be between 250 million and 700 million dollars in 1954. The merchandise pilferage figure from business firms was placed at more than a billion dollars a year. This loss is variously attributed to pressures from inflation, high cost of living since World War II, and the prosperity induced laxity, making thefts seem easy and relatively safe.<sup>5</sup>

This type of crime is difficult to control. It seldom makes the headlines, unless the resulting loss is

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<sup>4</sup>G. B. Estes, "Loss Control" (Center for Police Training, Indiana University, 1960), pp. 1-10 (mimeographed).

<sup>5</sup>Irvin Ross, "The Quietest of Crimes," Beacon, Vol. 18, No. 4 (July-August, 1961), pp. 1-3.

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a large amount. Thus, it may be said that these thefts are "the quietest of all crimes."

Every type of establishment is vulnerable to some form of dishonesty. It is found in industrial plants, restaurants, brokerage houses, retail stores, warehouses, building supply firms, and many other enterprises.<sup>6</sup>

The magnitude of dishonesty has reached large sums since 1954. Today the annual loss suffered by American business is estimated to be between one and three billion dollars.<sup>7</sup> Serious financial harm can be caused by the dishonest employee. A spot check of surety companies' claim files reveals a prevalence of losses from several types of businesses at many locations. These losses were caused by employees in different positions of trust. Typical cases are reflected in Tables I and II.

Regardless of the preventive measures that might be taken, it is difficult to stop all losses found in our free spending economy. There have been various explanations given for this type of crime, but variations exist as to theories of causation. The subject of employee dishonesty is a

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<sup>6</sup>Ibid.

<sup>7</sup>S. J. Curtis, "Focus on the Future" (Speech given at Security Seminar, Michigan State University, East Lansing, April 18, 1963), p. 4 (mimeographed).





relatively neglected and confused area of adult criminality.<sup>8</sup>

### The Problem

Statement of the problem. This study concerns the policies and attitudes of management towards employee theft and dishonesty in manufacturing enterprises. It includes contacts with management personnel in selected enterprises to discover policies and attitudes in effect to prevent theft and dishonesty, and to test the hypothesis that "management's policies and attitudes towards employee dishonesty are significant factors in controlling or minimizing employee dishonesty."

The control of employee theft and other forms of dishonesty is not always easy in today's economy. Many items are produced in large quantities, and there are numerous transactions involving large sums of money. It is doubtful if any security control method or technique could completely prevent dishonesty. Someone will always find a way to defeat internal financial and physical security controls.

No business, large or small, is immune from dishonesty. A continuous effort should be made to prevent this spreading evil by standard practices in business management, but differences exist in management's policies and attitudes

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<sup>8</sup>Frank E. Harting, "White Collar Crime: Its Significance for Theory and Practice," Federal Probation, Vol. 17, No. 2 (June, 1953), pp. 31-32.

toward this behavior. The range in their attitudes includes the following:

1. They may be totally unaware of existing losses.
2. They may suspect employee dishonesty, but do not know how to cope with it.
3. They may favor the attitude that most employees are honest.
4. They may accept a certain amount of loss from dishonesty as part of the cost of conducting business, and provide for it in their bookkeeping system.
5. They may keep careful records of losses to recover from an insurance policy or add the loss to the price of their product.<sup>9</sup>

If a reduction in dishonesty losses is to occur, these attitudes require changing. It must be remembered that in our modern society, full of wealth and material things, there exists a setting for theft and dishonesty. Criminalologists, psychologists, sociologists, law enforcement officers and security specialists indicate that crime does not just happen. It is caused. Crime may be increased or decreased according to exposure which sets the stage for thefts. Poor control methods and techniques when utilized by management often establish such a setting and result in a crime.

It has been said that the rank and file in business are not entirely to blame, because it is made so easy for

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<sup>9</sup>Estes, loc. cit.

them to steal. Security controls should be tightened to reduce the problem. The efficiency of these controls rests with an increase in supervision by management. Surprisingly, if management is not aware of this problem, people will steal.<sup>10</sup>

Theft and employee dishonesty continue to exist, and management contributes to it by an attitude of complacency and indifference toward its loss. This attitude needs to be changed before policies can be adopted to minimize the losses. Poor business practices, inadequate controls, lax supervision, and unrealistic policies breed dishonesty.<sup>11</sup>

If the problem is allowed to flourish, it will destroy the value of decency and fair play. It is management's responsibility to impose adequate controls to reduce dishonesty losses.<sup>12</sup>

Importance of the study. Since dishonesty in one form or other continues to be pervasive, it is important for the student of industrial security to examine this problem and make certain observations about its effect on business and industry.

The solution to this difficult but important problem begins with the employer. He must take certain steps

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<sup>10</sup>Ibid.

<sup>11</sup>Curtis, op. cit., pp. 1-10.

<sup>12</sup>Norman Jaspan, The Thief in the White Collar (Philadelphia and New York: J. B. Lippincott Company, 1960), p. 25.

to provide internal controls and physical security. These steps can be developed by research and study such as the one contained in this thesis to provide a foundation for improved security methods and techniques. Thefts prevented through loss controls will place large sums back on the asset side of the ledgers of business firms. The savings realized by reducing the problem will supply money to improve industrial growth and will offer better returns for the consumer dollar. Probably most important, the sums of money realized from the control of employee dishonesty can be utilized to improve our country's industrial position in the economic battle with communism which is being waged throughout the world today.

#### Definitions of Terms Used in This Thesis

To provide understanding and clarification of the contents of the thesis, it is necessary to define the terms used. Some pertinent definitions are contained in the following paragraphs.

Management--Management consists of integrating and coordinating various functions related to the successful accomplishment of a common objective. It translates broad policies and long-range objectives into specific short-term objectives and directs activities to achieve specific results. This is done by the control and direction of employees and operations in an organization to reach these objectives.





Philosophies and standards must be examined by management in order to change guidelines and gauge the success of the business.<sup>13</sup>

Supervision--Supervision pertains to overseeing the functions of the employees. This is the level in business where people are told what to do and how to do it. It is essential to an effective operation and should comply with the rule that every employee at the level of execution should be under the direct supervision of a superior.<sup>14</sup>

Theft--In criminal law, theft is defined as a larceny, and involves an act through intent or design to deprive the owner of his personal goods by taking, carrying away, or converting from its rightful and legal place to another place with a felonious intent to steal from the owner. The thing taken must be something the law recognizes as property, and is the subject of ownership. An intent must exist in taking and carrying away the property to deprive the owner permanently of his goods or value without a mistake or claim for the sake of a gain by the thief.

Larceny is also defined in general as being committed by a person who wrongfully takes, obtains, or withholds, by any means whatsoever, from the possession of true ownership

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<sup>13</sup>William F. Dinsmore, "Management? Administration? Supervision?--How Do These Terms Differ?," Office Executive (January, 1961).

<sup>14</sup>Municipal Police Administration (Chicago, Illinois: The International City Managers' Association, Publisher, 1960), p. 60.



or any other person any money, personal property, or article of value of any kind, if he intends to deprive or defraud another person permanently of the use and benefit of the property or to appropriate the same to his own use or the use of any person other than the true owner.

Dishonesty--Dishonesty is conduct that may be interpreted as meaning intentional taking, accepting, or keeping by an individual of anything not rightfully belonging to him, or fraudulent misrepresentation. This is an act reflecting a lack of integrity.

Fraud--Fraud is a deceit or a trick. It is committed by cheats who become involved in fraudulent disposition of money or other personal property delivered or entrusted to them. This category of dishonest behavior could pertain to false statement, fraudulent registration or practices, false billings or sales, and the fraudulent obtaining of a signature to any written instrument with intent to defraud. In a wider sense it includes all acts, omissions, or concealments by which one person obtains an advantage to the prejudice of another as an act in violation of the relations of trust and confidence.<sup>15</sup>

Embezzlement--Embezzlement is an act devised as a scheme to obtain money illegally. The treatment of thefts,

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<sup>15</sup>Michigan Police Law Manual (Michigan Association of Chiefs of Police, publisher, 1954), p. 251.



frauds and cheats, as defined above, are placed under the general heading of larceny. The difference between the various forms of larceny lies in the type of ownership or custody the offender enjoys at the time of the violation. Here we define a "white collar crime" as the fraudulent appropriation of money by a person to whom it is entrusted. The person is confronted with a combination of opportunity and temptation. The motivation is profit, financial gain, or a desire for power.<sup>16</sup>

Fraudulent appropriation of money or goods entrusted to one's care by another is embezzlement. The crime may be found in banks or trust companies involving an agent or employee; in property transaction covered by chattel mortgage, contracts of purchase, or lease. Perhaps the embezzler is a warehouseman who issued a false receipt or certificate to receive property entrusted to his care and converts it to his own use.

Defalcation--Defalcation is another term used for the act of stealing or misusing funds entrusted to one's care. It is found in fraud losses created by fictitious inventories, increasing amount of suppliers' invoices, failure to record sales, shipping merchandise to employees' homes for disposal, falsifying inventories on hand, and

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<sup>16</sup>Charles E. O'Hara, Fundamentals of Criminal Investigation (Springfield, Illinois: Charles C. Thomas, Publisher, 1961), p. 294.



many other dishonest acts designed to steal. This term is often associated with business irregularities to cover misappropriation through false entries in accounting or merchandising records.

Falsification of records--This pertains to the alteration of any official records kept by a firm to reflect accurate transactions of business activities. The records, a product from financial accounts and inventory figures, are changed to reflect false information to cover up unauthorized withdrawal of funds or theft of merchandise.

Manipulation of inventories--This practice consists of any deviation from an inventory control system representing all stock in proper quantities. This practice of manipulation may provide for shortages to hide merchandise losses or to reflect an overstock on hand for future thefts. The written records are changed to show incorrect amounts for illegal purposes.

Internal controls--These are methods or procedures established by accounting principles and stock controls to show funds and merchandise on deposit or on hand. The policies for controls are established by management to detect any weakness of a prescribed security system and prevent defalcations. These internal controls are instituted to improve serious defects in security procedure or the assignment of personnel used in control of financial and property records to safeguard assets. This is management's first



line of defense that must meet the needs of each organization, and must be reviewed continually and improved to determine operational efficiency.<sup>17</sup>

Pilferage--This is a reference made to the act of stealing by taking small amounts of property or articles of little value.

Polygraph-lie detector--An instrument used in the recording of deception reflected on the emotional changes of an individual, this mechanical device records the changes in blood pressure, respiration, pulse, and other organic changes. Trained operators of a lie detector can read the charts made by the instrument showing emotional changes of the human system when confronted with the truth on answering with a lie.

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<sup>17</sup>Charles A. Stewart, "Internal Controls and Defalcations," New York Certified Public Accountant (June, 1959), pp. 415-421.

Table I

Spot Check Surety Bond Coverage and Loss<sup>18</sup>

(Insured)	(Employee)	(Loss)	(Bond)
Wholesale Produce	Bookkeeper	\$185,820	\$25,000
Dress Manufacturer	Dept. Manager	43,000	20,000
Plumbing Supplies	Warehouseman	17,000	2,500
Retail Dairy	Office Mgr.	11,000	2,500
Furniture Dealer	Credit Clerk	22,000	5,000
Coal & Ice Company	Bookkeeper	28,240	5,000
Wholesale Grocer	Salesman	29,345	12,500
Hospital	Chief Clerk	15,000	5,000
Paper Mill	Paymaster	45,000	10,000
Public Utility	Treasurer	99,139	25,000
Machinery Mfrs.	Sales Mgr.	96,940	50,000
Export-Import	Bookkeeper	65,891	20,000
Department Store	Several	81,000	15,000
Meat Packer	Supt.	43,404	10,000
Automobile Dealer	Distributor	98,700	50,000
General Mdse.	Cashier	22,000	3,000
Heater Mfr.	Manager	30,000	10,000
Refrigerator Mfr.	Cashier	20,810	5,000
Rubber Mfr.	Bookkeeper	126,700	26,000
Steamship Company	Asst. Cashier	65,000	1,000
Advertising	Billing Clerk	90,875	10,000
Auto Dealer	Bookkeeper	31,361	10,000
Department Store	Floor Manager	18,500	10,000
Foundry	Bookkeeper	36,000	7,500
General Mdse.	Manager	15,200	10,000
Grain Dealer	Elevator Mgr.	26,306	10,000
Hardware	Credit Mgr.	40,871	10,000
Mfr. Radio Tubes	Several	48,000	20,000
Novelty Mfr.	Shipping Clerk	34,696	12,500
Oil Drilling	Supervisor	30,882	10,000
Paper Products	Warehouseman	25,551	15,000
Rubber Products	Office Mgr.	150,500	25,500
Tobacco Products	Bookkeeper	43,000	10,000
Wholesale Grocers	Cashier	52,348	10,000

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<sup>18</sup> Safeguards Against Employee Dishonesty in Business  
 (New York: The Surety Association of America, October, 1962),  
 pp. 1-23.



Table II  
Location of Losses<sup>19</sup>

	Number	Defalcations
Alabama	28	\$ 92,634.51
Arizona	4	3,055.10
Arkansas	21	59,851.99
California	47	107,158.99
Colorado	10	55,216.48
Connecticut	23	26,268.84
Delaware	2	31,262.00
District of Columbia	30	55,934.00
Florida	45	78,274.01
Georgia	27	37,131.37
Idaho	2	72,832.72
Illinois	61	59,600.51
Indiana	37	38,508.99
Iowa	7	16,343.00
Kansas	18	574,687.22
Kentucky	10	13,371.48
Louisiana	19	26,854.26
Maine	1	2,850.00
Maryland	15	46,308.96
Massachusetts	5	12,940.76
Michigan	21	32,238.62
Minnesota	12	20,600.51
Mississippi	18	37,910.97
Missouri	15	97,049.86
Montana	1	1,827.00
Nebraska	5	2,814.66
Nevada	6	19,190.86
New Hampshire	2	8,492.00
New Jersey	10	150,981.84
New Mexico	10	20,889.06
New York	56	461,945.94
North Carolina	19	30,332.41
North Dakota	3	853.73
Ohio	49	173,714.59
Oklahoma	15	32,562.08
Oregon	4	5,225.00
Pennsylvania	54	161,775.21
Rhode Island	2	1,230.00

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<sup>19</sup> Embezzlers: A Post War Study of Defalcations in Business, 1947-1949 (Maryland: United States Fidelity and Guaranty Company, 1950), pp. 7-8.



	Number	Defalcations
South Carolina	8	\$ 16,931.54
South Dakota	2	1,400.00
Tennessee	22	127,508.29
Texas	30	37,805.86
Utah	11	25,967.05
Vermont	1	590.00
Virginia	11	11,435.61
Washington	8	10,397.47
West Virginia	16	26,906.73
Wisconsin	18	33,914.13
Wyoming	8	233,107.02
Alberta	6	11,161.86
British Columbia	6	12,562.88
Manitoba	3	6,194.21
Nova Scotia	4	6,470.36
Ontario	62	282,784.89
Saskatchewan	7	8,850.24
Quebec	40	76,690.35
Alaska	3	2,662.00
Canal Zone	8	25,874.61
Hawaii	2	2,980.00
Puerto Rico	1	18,650.00
Foreign	10	33,076.64
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	1,001	\$3,684,641.27
Men	845	\$3,544,222.89
Women	156	140,418.38

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## CHAPTER II

### METHODOLOGY

The hypothesis that "management's policies and attitudes toward employee dishonesty are significant factors in controlling or minimizing employee dishonesty" was tested through a review of the literature on the subject and a field survey of selected manufacturing enterprises.

The sample consisted of twenty automobile accessory enterprises. Dual considerations of economy and manageability caused the number of enterprises to be limited to this minimum. The firms were chosen by categories within the accessory industry from the listings in Thomas' Register for American Manufacturers.<sup>1</sup> The categories selected were:

(a) Batteries, (b) Gears, (c) Locks, and (d) Parts. Each category was initially placed in a size group according to an asset code rating shown in the Register. This size grouping proved impractical, so it was eliminated in favor of a grouping by total number of employees in each firm. The firm size established by the investigator was as follows:

<u>Number of Employees</u>	<u>Firm Size</u>
100 or less	Small

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<sup>1</sup>Thomas' Register of American Manufacturers (Fifty-third edition; New York: Thomas Publishing Company, 1963).



1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that proper record-keeping is essential for transparency and accountability, particularly in financial matters. The text notes that without reliable records, it is difficult to track expenses, revenues, and other critical data points.

2. The second part of the document outlines the various methods and tools used to collect and analyze data. It mentions the use of spreadsheets, databases, and specialized software to organize information efficiently. The importance of regular data updates and backups is also highlighted to ensure the integrity and availability of the information.

3. The third part of the document focuses on the analysis of the collected data. It describes how statistical methods and trend analysis can be applied to identify patterns and anomalies. The text suggests that regular analysis helps in making informed decisions and adjusting strategies based on the latest data trends.

4. The fourth part of the document discusses the challenges faced in data management and analysis. It mentions issues such as data inconsistency, incomplete records, and the complexity of integrating data from different sources. The text provides suggestions for overcoming these challenges, such as implementing strict data entry protocols and using data validation tools.

5. The fifth part of the document concludes by summarizing the key points discussed. It reiterates the importance of a systematic approach to data collection, analysis, and management. The text encourages continuous improvement and the adoption of best practices to enhance the overall quality and reliability of the data.

101 to 400

Medium

401 and over

Large

A representative sample was then chosen. This sample was considered adequate to test the hypothesis.

After the review of the literature and sample selection, it was decided to rely upon interviews with management personnel rather than mailed questionnaires, and to study a limited number of cases intensively. It was felt that the interview would bring better results for collecting data.

A pre-interview schedule (Appendix A) was constructed to determine the ability of the respondent to answer questions in the interview schedule that followed, and to collect basic data about each firm. An interview schedule (Appendix B) was constructed to collect data about management's policies and attitudes, control methods and techniques, and the loss experiences of each firm.

Prior to extensive use of the survey instruments, a pilot survey was conducted in Lansing, Michigan, to determine the utility and accuracy of the interview schedules as data collecting instruments. Economy again was an influencing factor. Lansing was made the base point for compiling the study. Firms selected in the pilot survey were accessible to the base point. Upon completion of the pilot survey, three questions were eliminated from the pre-interview schedule and one from the interview schedule. Questions

eliminated proved to be of no value in the survey since they offered no useful information for analysis. After revision, the instruments were used in the field on the primary survey group.

Firms selected were indexed in numerical sequence from 1 to 20. Each firm was assigned a code number for further reference in the data analysis. The number assignment was made to strengthen the quantity and quality of the data collected by assuring the respondents that their names and firm names would not be revealed in this study. Thus, the investigator was later able to trace responses to each question by firm in order to chart and compare data in the analysis.

The sampling process was not made without problems. For example, difficulty arose in selecting the original twenty firms. Seven were eliminated from the survey for various reasons; two were too small to be of any value; one was out of business; one refused interview because it had no theft problems; one moved to an unknown location; and management was too busy to be of assistance in the other two firms. Selection of additional firms from the source previously mentioned was necessary to rebuild the twenty firm requirement. Two firms in the added selection refused interview, one required clearance from a main plant at a different location, and the other indicated that management was too busy. An example of a refusal is shown in Appendix C.

Twenty firms were finally obtained, however, to complete the required sample.

Two methods for obtaining interviews were employed in this survey: letters requesting appointments, and a non-appointment, in person, interview. The most successful approach recommended for future studies was the unannounced appearance with sufficient introduction to make an interview appealing. The other method, letters requesting appointments (Appendix D), was not a good procedure and proved unproductive. Six letters were mailed in advance to the Detroit area; one firm accepted; two failed to respond; one refused, stating that it had no employee theft problems; and one had a sales office in Detroit, with its production plant in a state outside the survey area. The sixth firm was closed.

Errors were also detected in the sampling. Firms in the manufacturing categories that did not make finished products were not a good choice for this study. Their product had no theft value for the dishonest employee. The category by capital rating did not prove of significant value in determining size of each firm. Some samples were rated high in tangible capital assets but hired a small number of employees. The number of personnel employed is recommended for future studies in selecting a category by size.

After all the respondents had answered in both pilot and primary survey groups, the data were merged to provide

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more bulk for analysis. The data were then analyzed and the results studied to learn management treatment of the problem in the survey sample.

Limitations of the study. It should be pointed out here that the investigator considered this study one of several needed in the area of theft control to learn more about the attitudes of management toward the problem.

The study was confined to a small universe defined as the survey area from the Detroit-Lansing-Jackson-Rochester, Michigan, and Chicago, Illinois, manufacturing complex; this limited the survey research findings to only a segment of the manufacturing area.

The enterprises selected placed a further limitation on the amount of information gathered. A larger sample would bring more data, but would be too expensive to handle and would require a large staff of analysts. The study, therefore, is not complete nor even a representative picture of the employee dishonesty problem, but is rather in the nature of an exploratory probe of a selected group of enterprises.

Reactions received in a single personal interview had other limiting factors with regard to how questions were answered by each respondent, a difference in view toward the problem and the varying company policies for theft control. These limitations had an influence on the quantity and quality of the information received for data analysis.

Organization of Remainder of Thesis. Literature on

the subject of employee dishonesty was reviewed to provide an understanding of the problem; to obtain sufficient information for a field survey; to construct accurate survey instruments to test the hypothesis.

In order to provide a general understanding of the problem, Chapter III summarizes the literature on the subject of employee theft and dishonesty in business and industry, fidelity coverage, and the use of the polygraph as an aid in theft detection. Since dishonesty is increasing in today's economy, a review of theories of the causation of employee dishonesty is included here.

Chapter IV contains case studies on six firms from the survey sample. These studies compare the policies and attitudes of management in the firms that experienced dishonesty losses.

Chapter V covers the basic data collected from the pre-interview schedule and preparation of the respondents for the test interview. The information included in this chapter pertains to data about the respondent's experience in relation to his firm.

Chapter VI pertains to the results of the research findings concerning policies and attitudes of management in the firms surveyed. It covers such data as causes contributing to employee dishonesty or theft, security organizations and duties, corrective action against offending employees, and management's views on those items.

Chapter VII is devoted to research findings pertaining to security control methods and techniques found in the surveyed firms, the effectiveness of security controls, and a report on the problem in the selected sample.

Chapter VIII is a report on the loss experiences found during the field survey. It covers all forms of dishonesty losses including theft for the year 1962 and ten years prior to 1962. Information about fidelity bonds and honesty insurance is covered in this chapter.

Chapter IX is an analysis of the survey research findings showing the relationship between loss experience and management's policies, attitudes and controls. This is the portion of the thesis devoted to a comparison of the data collected from the firms surveyed and shows by comparison the approach the survey firms have regarding controls to minimize the problem. Summary is made of the data collected in the form of charts.

Chapter X contains the conclusions and recommendations.





## CHAPTER III

### REVIEW OF THE LITERATURE

The problem of employee dishonesty is the subject of previous studies discussed in numerous publications. Books on the theories of causation in white collar crime provide an understanding of the behavioral pattern involved in this type of violation. The bulk of printed material on the subject is found in periodicals, booklets, and journals published by business and industrial associations.

Reading selections reflect the magnitude of the problem of employee dishonesty throughout the United States. These selections, as summarized below, give the reader a broad view of the problems involved, and may be used as clues for further research and study.

#### Theories of Causation

A number of attempts have been made to find an answer for the existence of employee dishonesty. One theory offered by Donald R. Cressey, Professor of Criminology, University of California, Los Angeles, is summarized as follows:

Trusted persons become trusted violators when they conceive of themselves as having a financial problem which is non-sharable, are aware that this problem can be secretly resolved by the violation of the position of financial trust, and are able to

apply to their own conception of themselves as users of entrusted funds or property.<sup>1</sup>

The defaulter, according to this theory, has an unusual economic need, must have an opportunity and technical knowledge to commit a fraudulent act, and have overcome his own conscience by some rationalization such as thinking the money is only borrowed and will be paid back.<sup>2</sup>

The techniques used in violations of trust are those acquired by a person of average intelligence or learned during the course of training and experience needed to hold a position of trust. Once acquired, those techniques could be used for legal or illegal purposes. For example, the embezzler feels he is not stealing from his firm, but merely borrowing the money. By the same degree, there are those who feel cheating or stealing from a large corporation is not criminal and that the act is proper under certain situations.<sup>3</sup>

Cressey further defines his theory by stating that trust violation is a compulsive crime prompted by uncontrolled compulsion of a person's will, judgment, and ego that comes from within the person. This uncontrolled compulsion is associated with different roles in life, and each person acts out these different roles with the hidden emotional forces of his own mind. Each person's reaction to a role

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<sup>1</sup>Donald R. Cressey, Other People's Money (Glencoe: The Free Press, 1953), pp. 33-75.

<sup>2</sup>Jaspan, op. cit., pp. 233-245.

<sup>3</sup>Donald R. Cressey, "Application and Verification of the Differential Association Theory," Journal of Criminal Law, Criminology and Police Science (May-June, 1952), pp. 43-52.

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depends on his state of mind when applying the test of right or wrong, or merely acting without thought. For example, a person in our society may feel comfortable committing an illegal act connected with his firm. This may be the accepted attitude of his group. It may account for his behavior in terms of motives which are sanctioned by his group; therefore, he has the will to steal. The compulsion to steal from his firm may be influenced by his social role reflecting his identification in society which dictates his actions.<sup>4</sup>

Another theory indicates that a person may be a non-conformist in terms of the law, but a conformist in terms of his group; therefore, only a portion of the people involved in thefts and defalcations become involved in technical legal difficulties. The premise here suggests that antisocial conduct violates social interests, but no standards are set to define conduct that is not acceptable in all categories of social behavior.<sup>5</sup>

There seems to be a tendency to think in terms of excessive crime rates among certain classes of offenders, but many offenders are not prosecuted. Their violations do not reach arrest records; therefore, an accurate crime rate count is not feasible, nor is it possible to present data regarding all dishonest acts affecting business and industry. The indexes of both crime and business conditions

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<sup>4</sup>Donald R. Cressey, "The Differential Association Theory and Compulsive Crime," Journal of Criminal Law, Criminology and Police Science (May-June, 1954), pp. 29-39.

<sup>5</sup>Paul W. Tappan, "Who Is the Criminal," American Sociological Review (February, 1947), pp. 96-102.



have varied so that no valid generalization can be made to compare accurately the crimes of the several classes. For this reason, official crime statistics are not accurate. People who become violators have different incentives for their crimes, but may never be counted as criminals.<sup>6</sup>

Durkheim, an eminent French sociologist as far back as 1897, provided part of the answer. He showed that an industrial civilization, in proportion to its rapidity of development, tends to suffer an ill which may have some reference to the lawlessness of the times.

Today Durkheim's comment may be interpreted to mean that technical advancements have developed into a period of an exceedingly rapid economic growth which contributes to the possible disturbance found in commercial integrity.<sup>7</sup>

#### Fidelity Coverage, Dishonesty and Theft in Business

Employers, in general, fall into two categories regarding the trust they place in the honesty of their employees: Those who feel a trusted employee will not steal and those who are realistic in their attitudes and protect themselves by insuring against employee theft.

Indemnity against dishonesty is the oldest form of suretyship in existence. The coverage by a corporate surety

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<sup>6</sup>Edwin H. Sutherland, White Collar Crime (New York: The Dryden Press, 1949), pp. 174-176.

<sup>7</sup>Elton Mayo, Human Problems in an Industrial Civilization (New York: The Macmillan Company, 1933), pp. 129, 141-144.

reimburses an employer for any loss of money or property sustained by a dishonest act of a bonded employee. Yet, many business organizations are not covered by bonds.<sup>8</sup>

The bond protects the assured against losses of property; however, when a loss occurs, management must show the exact cause of the loss to collect from the bonding company. A shortage created by breakage, over measuring or payment of goods not received, errors in the records or in taking a physical inventory are not covered by the bond. Once an item is in stock, it loses its identity; therefore, policies should be established to control this stock. False entries are not thefts, but are made to conceal a theft. Assets must be protected by proper entries that connect an employee directly with the dishonest act to bind the carrier under the fidelity bond.<sup>9</sup>

The chances of sustaining a fidelity loss today are greater than they were a few years ago. It is difficult to understand how so many executives lack comprehension of frauds as a business threat or any knowledge of protecting their company against it. Many times those in management positions divert their thinking to other policies and do not realize prevention of fraud is also important to the

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<sup>8</sup>C. W. Crist, Jr., Corporate Suretyship (New York: McGraw-Hill Book Company, Inc., 1950), pp. 98-106.

<sup>9</sup>Samuel Komoroff, "Fidelity Claims Require Further Proof," Weekly Underwriter (November-December, 1960), pp. 1049, 1101, 1145.





company's existence. The primary responsibility for safeguarding the assets of any business, detecting errors and frauds, rests with management.<sup>10</sup>

An effective plan to reduce dishonesty losses must be established. If this is not accomplished, the "silent partner," the employee, may share illicitly in the firm's profits, and bring it to the brink of insolvency. Protection against this requires a good plan for internal control. It requires good personnel practices to fill all positions with qualified people who meet job requirements. The plan itself should receive periodic review for possible improvements to curb thefts. Management should erect every normal barrier against employee dishonesty including good working conditions, reasonable hours, adequate wages, and opportunities for advancement for the labor force.

Many well established business concerns have adequate protection against employee dishonesty, but there are those that are not properly protected and expose themselves to the hazard of dishonesty losses.<sup>11</sup>

To illustrate further the necessity for management established policies to control employee dishonesty are the findings resulting from an inquiry made approximately

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<sup>10</sup>Robert M. Blake, "Employee Dishonesty Can Ruin You," Credit and Financial Management (October, 1960), pp. 22, 40, 42.

<sup>11</sup>"Safeguards Against Employee Dishonesty in Business" (New York: The Surety Association of America, October, 1962), pp. 1-23.

fourteen years ago of 1,001 embezzlement claims. These findings are reflected in Tables III and IV. These tables show several reasons for stealing.

Business generally was booming after World War II; profits were high; there was little penalty for lax management; and the supervision of operations was not as efficient as before the war. Money was spent freely and temptations abounded. A recheck of well established safeguards against embezzlement immediately following the war would have prevented much of the dishonesty losses.<sup>12</sup>

There is a growing concern today about the upward trend of dishonesty losses. Internal control is perhaps the most effective preventive method to reduce losses, but it will not prevent all of them. For example, an independent audit will uncover frauds, but will not disclose all irregularities. In spite of management's efforts to prevent irregularities, defalcations still occur.

The increasing trend of dishonesty losses emphasized a need for a survey on dishonesty exposure which was made by the Surety Associations of America. The survey pertained to such exposure factors as total assets, goods on hand, annual gross sales or income, nature of the business, size of the firm, and the number of employees. Upon completion of the survey, a formula was developed to determine a Dishonesty

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<sup>12</sup>"Embezzlers," op. cit., pp. 1-29.

Exposure Index for a commercial risk of any size or type.

The Dishonesty Exposure Index was derived from two principle elements in dishonesty losses: (1) Current Assets, and (2) Gross Sales or Income. The current assets were treated as values subject to a loss at all times, and the gross sales or income reflected turnover in those values. The index was figured in the following manner:

- |  |          |          |
|--|----------|----------|
| (1) Enter the firm's Total Current Assets<br>(cash, deposits, securities, receiv-<br>ables, goods on hand, etc.)       | \$ _____ |          |
| A. Enter the value of Goods on Hand<br>(raw materials, materials in pro-<br>cess, finished merchandise or<br>products) | \$ _____ |          |
| B. Enter 5% of A   |          | \$ _____ |
| C. Enter Current Assets less Goods<br>on Hand, i.e., the difference<br>between 1 and 1-A                               | \$ _____ |          |
| D. Enter 20% of C  |          | \$ _____ |
| (2) Enter Annual Gross Sales or Income   | \$ _____ |          |
| A. Enter 10% of (2)  |          | \$ _____ |

This total is the firm's dishonesty exposure index

Table V presents graduated brackets of the Exposure Index and the suggested minimum amounts of honesty insurance for each bracket.

An instance of how the formula works is shown in the following example for a wearing apparel manufacturer:

- |   |             |                  |
|---|-------------|------------------|
| (1) Total Current Assets                | \$950,000   |                  |
| A. Goods on Hand                        | \$600,000   |                  |
| B. 5% of A                              |             | \$30,000         |
| C. Current Assets less Goods on<br>Hand | \$350,000   |                  |
| D. 20% of C                             |             | \$70,000         |
| (2) Annual Gross Sales or Income        | \$3,000,000 |                  |
| A. 10% of (2)                           |             | \$300,000        |
| Total (Exposure Index)                  |             | <u>\$400,000</u> |

In Table V, the \$400,000 Exposure Index falls in Bracket Number 4 (250,000 to 500,000). This table can be used to determine a minimum amount of honesty insurance. In the above example, the insurance is figured to fall between \$75,000 and \$100,000 or by interpolation, the minimum coverage should be \$90,000.<sup>13</sup>

It is apparent that in the normal course of business key personnel must be entrusted with certain phases of the operations. If they decide to convert assets to their own use, what can be done to stop them? A fidelity bond may be the answer.

The chance that a company will remain free from defalcations is in proportion to the supervisory measures adopted to enforce adherence to efficient and honest practices. Management is responsible to keep its own house in order by a good system of internal controls adopted to protect assets, keep check on accounting data, produce good operational efficiency, and firmly encourage adherence to prescribed policies.<sup>14</sup>

Regardless of the interest in the resources of a company, defalcations have been rising, and in almost every case dishonesty losses are linked with poor controls permitting

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<sup>13</sup>"How Much Honesty Insurance," (New York: The Surety Association of America, November, 1961), pp. 1-12.

<sup>14</sup>R. L. Ballard, "Keeping Employees Honest," Credit and Financial Management (October, 1957), pp. 20, 21, 38.

malpractices in business administration.<sup>15</sup>

Norman Jaspan commented that retail management in 1959, and for the past 37 years, showed 70% of all inventory shortages resulted in malpractices, 35% were from honest clerical errors, and 5% from shoplifting. Department stores in 1959 suffered a \$140 million loss from employee dishonesty, supermarkets \$100 million, hardware retailers and wholesalers \$90 million, discount houses \$25 million, variety stores \$60 million, drug retail and wholesale \$50 million, and the rest of the retail field lost \$140 million.<sup>16</sup> "Dishonesty is a by-product of management." Jaspan further states:

Ineffectual administrations, heavy day-to-day pressures and executive complacency is the primary significance that encourages theft. Vital operations and controls are neglected in the battle for sales expansion.<sup>17</sup>

Honest businessmen can help decrease trust violations by proper supervision. Policies can be made to prevent losses. In any situation management should not create an atmosphere conducive to theft. Work should be divided so no one employee entirely controls any record or transaction. Checks should be made to verify the work of others.

The labor force should be generally informed of the existence of checks and controls. However, it is not necessary

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<sup>15</sup>Charles A. Stewart, "Internal Control and Defalcations," New York Certified Public Accountant (June, 1959), pp. 415-421.

<sup>16</sup>"Inventory Losses: Are Employees Stealing from You," Electrical Merchandising Week (April 24, 1961), p. 6.

<sup>17</sup>Ibid.

for them to be aware of specific checks or reviews at any particular stage of an operation.

The insertion of controlled errors into a program is frequently valuable for detection of inefficient performances and malpractices.

To insure prompt follow-up of managerial instructions, key executives should inspect work areas to determine effectiveness of security devices, the presence of merchandise in vulnerable or unauthorized areas, delays in processing returnable merchandise or unprocessed documents, and the inadequate safeguarding of key control documents such as purchase orders, production records, or inventory sheets.

In all cases, it is important to estimate carefully the capabilities of employees. Unrealistic goals, quotas, or budgets can create failures in operations leading to loss of time and material.<sup>18</sup>

#### Dishonesty and Theft in Industry

Surveys conducted by the National Industrial Conference Board in 1955 show that theft control programs in industry put more emphasis on theft prevention than the apprehension and prosecution of the thieves. Several firms provided for an employee education program, improved supervision, screening job applicants, and a general overhaul of internal

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<sup>18</sup>Norman Jaspan, "Stopping Employee Theft Before It Starts," Management Review (January, 1960), pp. 51-52.

controls rather than prosecution of a dishonest employee. Prompt reporting of all thefts was encouraged, so action could be taken to cut down on the losses. Three-fourths of the companies in this survey reported that they dismissed dishonest people found guilty of theft, but prosecuted only when large amounts of money or property were involved, or when the property was stolen for resale, or if the thief was not an employee of the firm.<sup>19</sup>

The intensity of a theft investigation depended upon the value of the goods stolen. For example, a large theft ring might find elaborate techniques used by company investigators to solve larcenies while small thefts or pilferage would be treated differently.<sup>20</sup>

Management's role in the theft problem is not an easy one with respect to discharging a dishonest employee. Labor arbitrators intervening in these cases are reluctant to uphold the discharge on grounds of dishonesty or theft because of re-employment difficulties of the person discharged. Therefore, arbitrators require proof by the same general rules of evidence used in a court of law.

Labor-management contracts make the dishonest act of employees grounds for discharge, but the arbitrators will

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<sup>19</sup>"Industrial Theft Control: A Survey of Company Practice," Management Review (April, 1955), pp. 249-250.

<sup>20</sup>Ibid.



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not always go along with this and usually set aside the discharge. Arbitrators seem to favor suspension in these cases providing the employee is guilty "in fact" of an offense of sufficient gravity to warrant the suspension.<sup>21</sup>

In spite of this attitude of labor and management, some industries are using tougher tactics to curb their losses. They no longer regard thefts as part of a game. Other companies still regard theft from their plants almost as a way of life and resist it only passively. Those that take a serious interest in the problem have improved their methods to cut down pilferage to some degree.<sup>22</sup>

In other instances, over-tolerant, lax management is frequently blamed for employee dishonesty. Little notice is given to the merchandise thefts, but this is a problem in industry where small, easily secreted items are accessible.<sup>23</sup>

Cases have been recorded where a trusted employee had an elaborate workshop at home, equipped entirely with items pilfered from his employer. Such a situation could not happen if preventive methods were administered in time by supervision

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<sup>21</sup>Anthony F. Vaiana, "Discharge for Dishonesty and Theft," Labor Law Journal (May, 1959), pp. 330-341.

<sup>22</sup>"Crackdown on In-Plant Pilfering," Business Week (July 6, 1957), pp. 74-75.

<sup>23</sup>Irvin Ross, "Thievery in the Plant," Fortune (October, 1961), pp. 140, 143, 202, 204, 207.

and higher management. However, it can happen if there are operational inefficiencies.<sup>24</sup>

Physical security, complete inventories, deception and detection devices, intrusion devices, electric alarms, closed circuit television, photographic equipment, or even trained dogs may be used to provide counter measures to prevent thefts, but it is not always possible to have absolute security. Even physical controls have their limitations.

It would be wise to consider causes contributing to thefts, and provide effective remedies. For example, proper influence directed toward employee conduct will discourage indiscreet acts and violations of rules established by organized society. Moral integrity cannot be installed by decrees of legislation. It must be learned by presenting definite loss-conscious methods. In fact, such a program is strengthened when employees are convinced that prompt action will be taken against violators--that they are held accountable for their dishonest acts.<sup>25</sup>

A National Industrial Conference Board study offers the following suggestions to avoid losses:

1. Conduct an employee education program.  
Run a series of articles in your plant paper or on bulletin board notices emphasizing the threat of job loss in case of thievery. Publicize the solving of a theft.

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<sup>24</sup>Ray C. Taylor, "Put the Lid on Larceny," Supervisory Management (February, 1961), pp. 35-41.

<sup>25</sup>Estes, op. cit., p. 22.

2. Alert your supervisors to theft prevention. Make sure they understand the importance of controlling pilferage. They can take precautions against "open temptation" conditions and loose practices which inspire thefts. They should report all thefts when discovered so immediate action can be taken.
3. Improve your inventory control and auditing procedures. Slipshod controls are an invitation to theft because the loss may not be discovered. Periodic inspection by department heads and protection personnel on how property is handled helps develop better procedures and reduces chances of theft.
4. Improve vehicle control and package pass systems. It's best to keep as many vehicles out of the plant as possible. These are helpful: Vehicle inspection before leaving premises, escorts for all vehicles entering premises, entering and departing authorization systems. Package pass systems take many forms; most employ use of slip signed by authorized person describing material being taken out, time and date, employee's name and clock number.
5. Maintain a good lock and key control system. Good systems provide complete records of all locks and keys and to whom issued or loaned. A charge is normally made for lost locks and keys. Master key sets go to security personnel.
6. Improve your guard force. Train them to recognize abnormal employee actions which might be a tip-off to a possible theft. Guards should give special emphasis to certain areas where thefts are more likely to occur. Rotate your guard force so that guards do not become too friendly with other employees.
7. Loan tools or sell your products to employees at cost. Some companies, to reduce the theft of small hand and power tools, have set up a system to loan tools to employees for home use. Many firms making household items like appliances, radio tubes, power tools and similar items

have a policy of selling them to employees at cost.<sup>26</sup>

Any plant protection operation is an important function of a security system, but it is only a part. It is a related function of internal controls, and is headed by a Security Director.

The Chief Finance Officer of a firm is responsible for the internal financial controls, to insure that the plant receives all the material that it pays for, that it ships no more or less than it charges the customers, that inventories are not improperly dissipated by fraudulent disposal of production items or scrap and salvage materials.

Both the Security Director and Finance Officer should evaluate security checks in terms of the susceptibility of the items to theft and the opportunity for collusion between employees and others outside the plant.<sup>27</sup>

#### Use of the Polygraph in Business and Industry

There has been an increase in the use of the polygraph in the past ten years; more and more companies are making use of the lie detector. The increase can be attributed to a growing security consciousness in business. Howard Winter, of Burns' Industrial Management Control Department,

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<sup>26</sup>"Theft Control," Steel (August 23, 1954), p. 53.

<sup>27</sup>W. H. Corrigan, "Industrial Security and the Internal Auditor," Internal Auditor (June, 1959), pp. 61-68.



feels dishonesty is increasing and stated, "People are less honest now than they used to be; too many live beyond their means." The lie detector is an effective method being used to ferret out these defaulters.

The polygraph is chiefly used by businessmen to track down missing property and cash. The court's attitude against this technique is no barrier in a business investigation since the company is seeking a confession with identification of accomplices and possible recovery of the lost valuables, rather than a conviction.

Another common industrial application is the periodic personnel check. One midwestern firm obtained an 80 per cent admission from its workers to thefts averaging two dollars a week or more. The use of the polygraph for spot checks served as a psychological deterrent to dishonesty in reducing theft.<sup>28</sup>

Probably the most controversial application of the polygraph in business is its use in pre-employment testing. Job application evaluation is primarily used to determine a person's suitability for employment regarding his character, emotional stability, loyalty, honesty, and other traits of personality. A suggested method for this evaluation, to supplement time-consuming pre-employment screening,

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<sup>28</sup>"Business Uses the Lie Detector," Business Week (June 18, 1960), pp. 98, 105-106.





is the use of the polygraph. This method is capable of determining more about a person who applies for employment than could be determined by other techniques.

The polygraph is a useful tool for screening applicants and it is recommended when used properly. But it is not infallible. There are other problems with its use that concern labor. Labor simply does not like the lie detector. For this reason, expansion of its use in business was initially retarded.

In recent years, the commercial use of the lie detector has been made available to businesses where honesty is an attractive quality to an employer. Management, on the alert for employee dishonesty, has been increasing the use of the polygraph.<sup>29</sup>

Leon H. Weaver, Professor, School of Police Administration and Public Safety, Michigan State University, states, regarding the use of the polygraph in such situations:

Management has other ways of gaining information about employees--tests, questionnaires, interviews, and, probably best of all, first hand observation of performance. These ways may seem slower and more time-consuming, but in the long run are still the best a company can use.<sup>30</sup>

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<sup>29</sup>Leon H. Weaver, "Industrial Personnel Security: Cases and Materials" (Springfield, Illinois: Charles C. Thomas, 1963, unpublished manuscript), pp. 191-202, 215-216, 243.

<sup>30</sup>Ibid., p. 249.



The polygraph serves a useful purpose, however, and has backers on both sides of the argument. Tests made by the lie detector are disliked by those connected with them, but the polygraph is placed in the same category as other tests that employees and job applicants are asked to endure.<sup>31</sup>

The value of the polygraph is considered to be over-rated and can do more harm than good in the way it is used. Professional psychologists who have been doing extensive research with polygraph techniques contend that polygraphic measures are not valid; the results obtained are not reliable; and serious moral questions surround "trial by polygraph." They feel there is really no effective mechanical technique available to learn information that workers do not want to divulge.<sup>32</sup>

This struggle over the use of the polygraph will probably resolve itself only after further examination of the problem by both sides to determine future applications and their appropriateness in this field.

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<sup>31</sup>Ibid., p. 250.

<sup>32</sup>Richard A. Sternbach, Lawrence A. Gustafson, and Ronald L. Collier, "Don't Trust the Lie Detector," Harvard Business Review (November-December, 1962), pp. 128, 134.

Table III  
Theft Causes--Men<sup>33</sup>

	Number	Per Cent
Grudge against employer	23	2.72
Saving for rainy day	1	.12
Domestic trouble--extravagant wife	33	3.91
Operation of another business	17	2.0
Irresponsible	34	4.0
Inadequate income	40	4.73
Family illness	24	2.84
Own illness	20	2.37
Speculation	4	.47
Women	56	6.63
Poor business manager	25	2.96
Accumulation of debts	24	2.84
Living above means	170	20.12
Gambling and/or drink	195	23.08
Criminal character	114	13.49
Bad associates--dupe	24	2.84
Reduced income	6	.71
Mental cases	2	.24
To replace lost money	2	.24
Aftermath of war	5	.59
To finance marriage	6	.71
To start elsewhere	6	.71
To finance political candidacy	2	.24
Spent on hobby	2	.24
To help friends	1	.12
Juvenile delinquents	3	.36
Got woman "in trouble"	3	.36
To pay alimony	1	.12
To pay for motor accident	1	.12
Mother-in-law	1	.12
	<hr/>	<hr/>
Total	845	100%

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<sup>33</sup>"Embezzlers," op. cit., p. 20.



Table IV  
Theft Causes--Women<sup>34</sup>

	Single	Mar- ried	Di- vorced	Widows	Total	Per Cent
Family expenses	5	5	3	5	18	11.5
Husband unemployed	-	1	-	-	1	.6
Living above means	20	5	4	2	31	19.8
Husband responsible	-	3	-	-	3	1.9
Family illness	3	4	-	1	8	5.1
Own illness	2	1	-	3	6	3.8
Clothes--extravagance	4	6	5	1	16	10.3
Influence by man who got part	10	-	3	1	14	9.0
Lost in business venture	2	-	-	-	2	1.3
Gambling	-	-	1	-	1	.6
Drink and dissipation	3	2	1	1	7	4.5
Criminal background	9	3	3	1	16	10.3
Weak character or dupe	2	3	-	-	5	3.2
Drug addict	-	-	1	-	1	.6
Mental case	1	1	-	2	4	2.7
Pregnancy	2	1	1	-	4	2.7
To finance wedding	4	-	-	-	4	2.7
Grudge against em- ployer	1	2	-	-	3	1.9
To start elsewhere	3	1	4	-	8	5.1
Regarded money as earned	1	-	-	-	1	.6
Juvenile delinquent	1	-	-	-	1	.6
To save cash	-	1	-	-	1	.6
Unknown	-	1	-	-	1	.6
Total	73	40	26	17	156	100.0

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<sup>34</sup>Ibid., p. 24.

Table V

Suggested Minimum Amounts of Honesty Insurance<sup>35</sup>

<u>Exposure Index</u>		<u>Bracket No.</u>	<u>Amount of Bond</u>	
\$ 1,000	\$ 25,000	1	\$ 15,000	\$ 25,000
25,000	125,000	2	25,000	50,000
125,000	250,000	3	50,000	75,000
250,000	500,000	4	75,000	100,000
500,000	750,000	5	100,000	125,000
750,000	1,000,000	6	125,000	150,000
1,000,000	1,375,000	7	150,000	175,000
1,375,000	1,750,000	8	175,000	200,000
1,750,000	2,125,000	9	200,000	225,000
2,125,000	2,500,000	10	225,000	250,000
2,500,000	3,325,000	11	250,000	300,000
3,325,000	4,175,000	12	300,000	350,000
4,175,000	5,000,000	13	350,000	400,000
5,000,000	6,075,000	14	400,000	450,000
6,075,000	7,150,000	15	450,000	500,000
7,150,000	9,275,000	16	500,000	600,000
9,275,000	11,425,000	17	600,000	700,000
11,425,000	15,000,000	18	700,000	800,000
15,000,000	20,000,000	19	800,000	900,000
20,000,000	25,000,000	20	900,000	1,000,000
25,000,000	50,000,000	21	1,000,000	1,250,000
50,000,000	87,500,000	22	1,250,000	1,500,000
87,500,000	125,000,000	23	1,500,000	1,750,000
125,000,000	187,500,000	24	1,750,000	2,000,000
187,500,000	250,000,000	25	2,000,000	2,250,000
250,000,000	333,325,000	26	2,250,000	2,500,000
333,325,000	500,000,000	27	2,500,000	3,000,000
500,000,000	750,000,000	28	3,000,000	3,500,000
750,000,000	1,000,000,000	29	3,500,000	4,000,000
1,000,000,000	1,250,000,000	30	4,000,000	4,500,000
1,250,000,000	1,500,000,000	31	4,500,000	5,000,000

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<sup>35</sup>"How Much Honesty Insurance," (New York: The Surety Association of America, November, 1961), p. 13.





## CHAPTER IV

### CASE STUDIES

One technique for presenting information is through utilization of case studies. The case studies presented on the following pages indicate the relationship between management's policies and its attitudes in the control of theft.

#### Locker Theft

Firm Number 2 was an independent parts manufacturing firm and had been in business for the past forty years at their present location. The firm employed 280 people and reported no special requirements for establishing internal controls to minimize dishonesty losses. The personnel director was interviewed and had been employed for the past twelve years in his present position. There were two employees assigned to full-time security operations and six performing part-time security duties.

During its period of operation, the firm had established policies to reduce dishonesty losses and had developed certain attitudes toward the problem. The policies and attitudes were apparently influenced by the type of operation and items produced. This was a drop forge company producing unfinished heavy steel casting that had no value to the

employee. They had experienced a past theft problem when money was taken from an employee's open locker in the plant. The offender was identified and discharged. They reported no major problems with theft of company property or losses of company assets other than some missing tools. The losses for the past ten years were estimated at less than fifty dollars.

This background led to the company policy of frequent checks of tools and employee lockers. The internal controls of the firm consisted of a perpetual inventory of stock items and an unannounced annual audit of business records. These policies were reported effective for the purpose intended.

The personnel director felt that a poor personal background, careless employees, gambling, and a person with a mind to steal were the most important factors contributing to the problem of theft and employee dishonesty. The policy of discharging any person involved in such misdeeds was a company rule.

Security operation duties were set forth in written company rules and policies, and the respondent felt all offenses contrary to company rules and the law should be prosecuted, except for stolen items valued at less than \$1.00. In any event, the general manager in this firm made the final decision on the disposition of any dishonesty case. His decision could lead to a reprimand for minor



offenses, a discharge, or prosecution.

The security organization dealing with dishonesty problems was reported to serve its purpose, but there was a feeling that more personnel should be added to maintain control over areas vulnerable to dishonesty losses.

To prevent dishonesty, scrap material was given to employees for the asking. They did not have to steal it. If a dishonesty case should arise, information about the offense was referred to management: (1) from employees, (2) supervisory personnel, (3) plant protection personnel, (4) shop foremen, (5) the personnel director's supervisor, and (6) the finance department.

The security control methods and techniques utilized by this firm coincided with established policies, and were reported to be effective. The firm had a \$500.00 fidelity bond on each employee.

#### False Piece Count

Firm Number 4 reported a dishonesty loss from a false piece count to obtain more pay. The loss was not reported as occurring within the past ten years, so no further analysis was made on the data collected.

#### Theft Problem

Firm Number 5 was interesting from a case study standpoint as they were experiencing a theft problem at the time of the survey, and had had dishonesty losses in

the past ten years. Their experiences were somewhat different from those found in Firm Number 2.

This organization was an independent manufacturing firm producing a finished component part which may have had a bearing on their problem. They employed 2,076 people, considerably more than Firm 2, but reported no special requirements for establishing internal control to minimize dishonesty losses.

The security director was interviewed and reported having been employed by the firm for thirty-six years, but had only been in his present position for less than a year. He was the head of the Safety and Security Division which had sixty full-time and five part-time employees assigned to their security operation.

Strangely enough, the Security Director in this firm reported that there had been no internal control policies in effect to reduce dishonesty losses other than a plant protection operation.

When questioned about his opinion on the plant policy, he stated, "It is effective up to a point, but doesn't stop a lot of removals." He voiced an opinion on the causes contributing to employee dishonesty and listed them in the following order: (1) deterioration of morale, (2) loss of respect for employer, (3) protection forces low, (4) family sickness, and (5) a need for material for outside activities. He felt management could do more to control



dishonesty losses by providing more guards and installing detection devices.

Security operation duties were written in rules and policies. The policies referred to plant protection as evidenced by the comment made regarding internal controls.

The security director had a strong opinion favoring the prosecution in appropriate court of offenders involved in the removal of company property. He felt such action would establish a precedent for future prevention as well as recover the stolen property. He did not favor supervision, discharge, or prosecution for minor theft, as he felt that tolerance here brought about better labor relations. In the capacity of Safety and Security Director, he made the final decision on the disposition of dishonesty cases often receiving advice from legal counsel.

There appeared to be an attitude factor in this plant relating to security policies that required changes by top management to minimize the theft problem. For example, the respondent reported unguarded openings in the plant where personnel entered and departed. He suggested that a fence with three openings would help to prevent thefts. The lack of surveillance in unguarded areas also contributes to the problem.

The Security Director had the following duties to perform: (1) administration, (2) report writing, (3) contacts with department referrals and follow-ups for employees

in need of further supervision, (4) inspection of areas or operations vulnerable to dishonesty losses, (5) observation of places that contribute to the losses, and (6) investigation of dishonesty-protection personnel, shop foremen, supervisory personnel, employees, and the finance department. The only control techniques that existed in this firm to prevent losses was the plant protection unit which was considered under strength; consequently, it was not very effective for the purpose intended.

The data collected from the respondent in Firm No. 5 indicated a constant theft problem which involved the removal of merchandise and equipment. Control improvements at the time of the survey amounted to a renewed plant protection effort, a monitoring system, and the addition of a few more guards.

Losses were experienced in this firm in 1962. The Security Director did not know the amount, as no loss figure had been recorded, but he stated the thefts were continually going on. When questioned about the annual losses for the past ten years, he could not give the exact amount. The firm was insured against such losses, but the amount of coverage was unknown.

This firm was a good example for comparative purposes and supported the test of the thesis hypothesis.

#### Tool Theft

Firm Number 10 was in the automobile parts accessory





category and had been in business for thirty-six years in the same location. It employed 720 persons and had established special internal control requirements to reduce losses. The Safety and Security Director was interviewed. He had worked for twenty-three years for the firm and had supervision over twelve full-time employees assigned to security operations. He had held his present position of Safety and Security Director for nineteen years. The firm was a branch unit of a larger organization.

The respondent reported a parking lot near the plant where employees could place things in their cars without being seen. Theft prevention measures involved employment of plant guards, supervision, rotation of operational personnel, and employee education.

Referrals on dishonest cases come from plant protection personnel, supervisory personnel, employees, and from other plants.

This firm applied preventive measures and techniques through a plant protection organization, lunch-pail inspections, truck checks, and patrols in parking lots and plant areas. The Security Director considered this to be effective, but reported five thefts in the past ten years. The theft problem was corrected by the removal of the operation involved to another plant in the firm. The area in which employee dishonesty existed led to false production counts which were corrected by closer supervision.



This firm made an effort to catch offenders by using informants in the plant and publicized penalties for violations against company rules. Security operation duties were covered by written rules and policies. Prosecution was sought on the theft of any item, but not for fighting or drinking. Any errors made in production count were settled through labor-management contract without employee lay-off.

This firm had good reasons for their efficient controls. They experienced an inventory shortage in 1962 and a theft of \$1,800 worth of valuable tools in 1954.

The firm was insured for \$100,000 against losses.

#### The Trusted Employee

Firm Number 13 had been in the battery business for fourteen years, and had three employees. This firm was a small, independent operation with no special requirements for internal controls or security operations. The honesty policy in effect which was considered adequate.

Places most vulnerable to theft and employee dishonesty were the customer-counter and delivery operation. The only form of control for the finished product was an inventory. The books were audited by a Certified Public Accountant. For a small firm, the controls were considered adequate by the respondent.

In the past the "honesty policy" and poor delivery

control were harmful to the business. In 1959 a trusted employee, never suspected as being a thief, embezzled \$3,700 of the company's funds and, before discovery was made, had disappeared. His address was unknown at the time of this survey, and he remained a wanted person in the files of the police department. The loss was absorbed by the firm because they trusted a dishonest employee and had carried no fidelity bond or insurance.

#### Payroll Embezzlement

Firm Number 20 was an independent firm in the automobile accessory business, producing locks as a finished product. The comptroller was interviewed and considered an excellent respondent, genuinely interested in internal controls. His firm had been in business at its present location for forty-three years. The working force consisted of 380 employees. At the time of the survey, there were no special requirements for establishing internal controls. Requirements for internal controls were accomplished six years ago when the firm had experienced a dishonesty loss. The comptroller was hired after this incident.

Sound internal control policies existed in this firm to reduce their losses. They had a two-person audit system to prevent a defalcation from recurring. These controls further consisted of a quarterly and internal year-end audit, accurate invoice checking, and a double-check

system on purchases paid by check requiring counter signatures. A certified public accountant firm audited the books annually. The comptroller supervised the entire business administration program by making a thorough review of comparative reports and records. All payments were made by check. A small amount of petty cash was kept on hand, and was audited the first of each month. Physical inventories also existed as an asset control measure. These policies were considered effective by the comptroller.

According to the comptroller, the opportunity to steal, the lack of adequate controls, a poor personnel selection policy, the lack of direct employee supervision, and an inadequate wage were the causes which contributed most directly to the employee dishonesty losses as experienced by this firm. Employees involved in dishonesty cases at this firm were discharged. Prosecution was favored for direct theft and embezzlement cases, but not for petty theft. Disposition of cases was made by the plant manager, personnel manager, and the union.

Warehouse areas and the scrap storage area were most vulnerable to dishonesty losses. Scrap from material used in lock production still has value; therefore, comparative scrap-reports were maintained, checks were made of the excessive scrap factor in machine operations and a perpetual inventory was kept on the material.

The control methods and techniques that existed in

this firm were consistent with management's policies for internal control. This firm was well informed on the purpose, intent, and use of internal controls. Their present system for controlling cases of dishonesty was considered adequate and effective. Any discrepancies in the system were reported to management by (1) finance department personnel, (2) shop foreman, and (3) plant protection personnel. The comptroller applied a cross check on security through administrative reviews of internal controls, report writing, contacts with other departments, and inspection of operations vulnerable to losses.

There was no theft problem reported in this firm at the time of the survey or in the past. A \$3,000.00 inventory shortage existed in 1962, but could not be attributed to dishonesty. In regard to shortages in general, the comptroller stated his firm felt it would be more expensive to establish tighter controls to prevent the shortages than it would be to absorb them.

In 1958 an embezzlement was committed by an employee in this firm. The man worked in the payroll division. When the offense was discovered, he had embezzled \$4,000 worth of checks, and cashed checks in the amount of \$700. The remaining checks were recovered, restitution was made in the amount of \$700, and criminal charges were dropped. No mention was made about the embezzlement method or reasons for not prosecuting the case. However, after this offense,

the comptroller was hired to set up internal controls to prevent further dishonesty losses.

These case studies certainly show the necessity of management's involvement in the employee dishonesty problem of which more will be said later.



## CHAPTER V

### SURVEY RESEARCH FINDINGS--BASIC DATA

The information obtained from the pre-interview schedule is analyzed in this chapter by management level of respondent, years of company service, firm size and years in business, special requirement for security controls, and other related information to form a basis for the subsequent analysis of the testing data.

Pre-interview schedule--Question Number 1, "What is the item produced by your firm?," shows that, of the twenty firms in both survey groups, two firms produced batteries, four produced gears, four produced locks, and ten produced parts.

This information indicated a heavier concentration of parts manufacturing enterprises in the survey area compared to the other categories, batteries, gears, and locks. Regardless of the category distribution, it was decided to continue the study and summarize the results.

Table VI shows a good spread in regional distribution of the automobile accessory categories in the survey area.

Table VI

Chart Showing Regional Distribution of Firms by Categories

Area	Category	Interviews Programed	Interviews Completed
Chicago, Illinois	Batteries	1	1
Chicago, Illinois	Locks	3	3
Detroit, Michigan	Batteries	1	1
Detroit, Michigan	Gears	2	2
Detroit, Michigan	Locks	1	1
Detroit, Michigan	Parts	1	1
Jackson, Michigan	Parts	3	3
Rochester, Michigan	Gears	2	2
Lansing, Michigan	Parts	<u>6</u>	<u>6</u>
Interview totals		20	20
	Batteries	2	2 (10%)
	Gears	4	4 (20%)
	Locks	4	4 (20%)
	Parts	<u>10</u>	<u>10</u> (50%)
Category totals		20	20

Question Number 2, "How long has your firm been in business at the present location?," was designed to determine the number of years each firm had been in business. This information had significant value in establishing the exposure of the labor market in each regional area to the theft and employee dishonesty problem. It also indicated the length of time management had been associated with business trends, security requirements and exposure to the problem during pre-World War II and post-World War II periods.

Table VII

Number of Years of Business Service at Present Location  
by Firms

Years of Business Service	Number of Firms
2 or less	2 (10%)
3 - 10	2 (10%)
11 - 15	2 (10%)
16 - 20	3 (15%)
21 - 30	2 (10%)
31 - 40	4 (20%)
41 - 50	3 (15%)
51 - 60	2 (10%)
Total Firms	20

The above table shows that 18 of the 20 firms selected have been in business at their present location for a sufficient number of years to be familiar with security controls and exposed to the theft and employee dishonesty problems. Sampling selection was adequate in this instance to collect sufficient information about management's policies and attitudes toward the problem, to collect data about implementing control methods and techniques, and to examine their loss experience, if any.

Question Number 3, "How many people (total) does this firm employ?," was inserted to determine the size of each firm in relation to the number of employees.

Table VIII

## Total Number of Personnel Employed in Sample Firms

Number of Employees	Number of Firms	
50 or less	4	(20%)
51 - 100	6	(30%)
101 - 200	2	(10%)
201 - 300	3	(15%)
301 - 400	1	(5%)
401 - 500	1	(5%)
501 - 600	0	--
601 - 700	0	--
701 - 800	1	(5%)
801 and over	<u>*2</u>	(10%)
Total Firms	20	

\*1 Firm 2,000 Employees

1 Firm 2,076 Employees

Figures in the above table indicated that the total number of employees working in each firm selected was not from a major industry. Seventeen firms, or 85% of the sample, employed less than 500 people. It is recommended for future studies that selection be made in relation to the size of a firm by employment figures of 500 and over. This may reflect better investigative results for studying management's security controls, attitudes, and loss experiences in relation to the theft problem.

Question Number 4, "Have you had any special requirements for establishing internal controls to minimize dishonesty losses at your firm?," was used to introduce the problem of dishonesty losses to the respondents. Its purpose



was to stimulate their thinking and prepare them for the test interview to follow. Responses to this question were not too productive, as only ten percent of the firms reported a requirement. Eighty per cent of the firms had no special requirements for establishing internal controls. It could be concluded here that management in general in the survey sample was not familiar with the term "internal controls," did not have knowledge of dishonesty losses in their firm or would not reveal a problem.

Question Number 5, "How long have you been employed as a member of this firm?," brought out length of company service of each respondent. It determined their exposure time to business conditions, security control requirements, and employee dishonesty. The responses also gave the investigator an indication of the knowledge and experience expected of management personnel in the survey sample.

Table IX

## Years of Employment Service of Respondents

Number of Years Employed	Number of Firms	Percentage
5 or less	4	20%
6 - 10	6	30%
11 - 20	7	35%
21 - 30	1	5%
31 - 40	<u>2</u>	10%
Total Firms	20	

The above figures show that eighty-five per cent of the employees, representing middle management, in the survey sample had less than twenty years of company service, which indicated a young management group in the survey sample. Fifteen per cent of respondents had post-World War II business experience. The years of experience of respondents may account for the number of negative responses to dishonesty questions received during the interview. Most of these people had been with their companies during the post-World War II boom period, and perhaps adjusted their thinking toward conditions in our present-day economy. This may or may not have a significance on the results of the survey. It is recommended for future studies that a more mature group, in relation to years of business service, be examined on the problem of theft and employee dishonesty. Perhaps their responses would bring more analytical data to determine dishonesty loss experiences.

Question Number 6, "What is the title of your position?," showed the level of management responding to questions during the survey.

Table X reflects that forty per cent of respondents were in the top management level and sixty per cent were in the middle management level. The forty per cent in top management from the survey sample had approximately less than twenty years of business service. This may have had an influence on management attitude. Sixty per cent of

the respondents were in the middle management level with about twenty years or less of business service. Again, this may have had an effect on attitudes in the survey area toward the problem of theft and employee dishonesty.

Table X  
Management Level of Respondents

Position Title	Number of Firms	Percentage
Owner or Co-owner	2	10%
Vice President	3	15%
Treasurer	1	5%
Asst. Secretary-Treasurer	2	10%
Asst. to President	1	5%
Comptroller	1	5%
Personnel Director	4	20%
Chief, Finance Division	1	5%
Sales Manager	1	5%
Security Director	1	5%
Safety Director	1	5%
Office Manager	<u>2</u>	10%
Total Firms	20	

Question Number 7, "How many persons are assigned to the security operation in your firm?," was designed to show the scope and size of security forces assigned to physical security in the firms comprising the survey sample.

Table XI shows an absence of personnel assigned to security operations within the sample in the survey area. Ninety per cent of the firms had less than five full-time security employees, and ninety-five per cent of the firms had less than five part-time security employees. It could



be concluded that these firms felt their physical security requirements did not warrant expenditure of funds for a larger security force.

Table XI

## Number of Personnel Assigned to Security Operation

Number of Full-Time Employees	Number of Firms	Number of Part-Time Employees	Number of Firms
0	11 (55%)	0	13 (65%)
5 or less	7 (35%)	5 or less	6 (30%)
6 - 10	1 (5%)	6 - 10	1 (5%)
11 - 30	0 (0%)		
31 - 60	<u>1</u> (5%)		—
Total Firms	20		20

Thirteen firms in the sample did not have employees assigned to a special unit of a security organization. Seven firms assigned employees to a special security unit in their organization. Four firms had Plant Protection Units and three maintained a watchman unit. Three firms had part-time security personnel performing a primary duty in other sections; one was a time keeper and first-aid attendant; one was a credit manager and bookkeeper; and the third was in production. The above information was obtained from responses contained in questions 8, 9, and 10 of the pre-interview schedule (see Appendix A).

Question Number 11, "Is this a single manufacturing firm or a branch of a large organization?," was posed to see

if a home office or main plant had any influence over security measures maintained at the branch firm. The response to this question might also show a home office influence in branch management's attitude toward the dishonesty problem. Three of the firms in the total sample were branch firms and seventeen were single manufacturing enterprises where the policies were formulated at the site of the interview. An examination of the interview schedules of the three branch firms did not reveal any unusual policy influence by the home office over the branch with regard to the dishonesty problem.

Question Number 12, "How long have you been employed at your present position?," was presented to determine actual years of company service each person interviewed had had in his management position.

Table XII

Years of Employment Service of Respondents in Management Position

Number of Years in Management Position	Number of Firms	Percentage
5 or less	6	30%
6 - 10	9	45%
11 - 20	4	20%
21 -30	<u>1</u>	5%
Total Firms	20	



The above table shows ninety-five per cent of the personnel interviewed had twenty years or less company service in their present management position. Seventy-five per cent had ten years or less of company service in their present position.

### Summary

The pre-interview schedule brought out certain facts about sample selections. Categories, such as gears and parts, require a close examination of the item produced. Stamping and forging companies have limited problems with theft of material. This type of parts category firm produces steel castings and component parts from heavy raw material and do not produce finished products. Their commodities are shipped to other firms in the automobile industry for finishing prior to becoming a functioning component of consumer products. This information should prove to be of value in further studies. The conclusion here would indicate that a small finished product with consumer value has a higher requirement for security controls and a higher vulnerability to theft by dishonest employees. Thus, it may be found that management policies and attitudes toward the problem of employee dishonesty are more relaxed in the heavy raw material area than in the small finished parts area.

Another factor in the gear category to consider was brought out in the field survey. Gears as a component

part of a finished consumer product have little attraction or usable value to the employees. Therefore, it should be eliminated from future studies.

The firm selection in the sample was sound with respect to the number of years of business service at their present location. Seventy per cent of the firms were in business at their present location over fifteen years and some over fifty years. This gave an adequate exposure to business conditions and changes affecting employee honesty over the years.

The number of employees appears to be an influencing factor in establishing security organization and special security requirements in a firm. A majority of firms examined in the field survey had 500 or less employees. This represented eighty-five per cent of the sample, and influenced the number of full and part-time employees assigned to security operations. Reference is made to Table XI on page 64.

Top management and middle management personnel were interviewed depending on consent and availability; therefore, little control could be established on selecting the level of management responding to the survey instruments. The investigator attempted to choose certain individuals in management positions, but often had to settle for those available after preliminary introduction and stating the purpose of the visit.

Interesting observations were made from the management respondents during the survey. For example, Table IX, page 61, shows that fifty per cent of respondents had employment service in their firm for ten years or less; Table XII, page 65, shows seventy-five per cent of the respondents were employed in their present management position for ten years or less; and Table X, page 63, shows forty per cent of the respondents were at top management level. Sixty per cent were in the middle management level; therefore, the results obtained from such a management group in years of service may have had a bearing on the data collected in the interview schedule.

The conclusions drawn are that small firms headed by young management will have a sympathetic view toward employees in today's labor market under the present economic conditions. This view may influence a lax attitude toward the dishonesty problem resulting in moderate application of internal controls and security measures.

## CHAPTER VI

### SURVEY RESEARCH FINDINGS--POLICIES AND ATTITUDES OF MANAGEMENT

The data collected in the second portion of the survey from the interview schedule were analyzed to determine management's policies and attitudes toward employee dishonesty in controlling or minimizing losses. The thinking of management was examined to learn programs in effect in the survey sample to reduce losses and to determine the effectiveness of these controls on the security operations.

A listing of security control established in the selected firms in survey area reflected the policies to minimize internal theft and dishonesty.

Interview schedule, question 1, "What are the internal control policies in effect in this firm to reduce dishonesty losses?," was presented at the beginning of this survey instrument to develop a frame of reference for responses to the questions that followed. With a focal point such as this and the basic data obtained from the pre-interview schedule, the investigator created a psychological setting to collect attitude responses from those interviewed.

Table XIII

## Internal Control Policies in Effect in Sample Firms

Policy	*Number of Times Policy Found in Sample Firms
<u>Undetermined</u>	
None	4
Uninformed about internal controls	2
Management trust in employees	3
<u>Physical Security Policies</u>	
Protection agency	1
Employee security lockers	1
Equipment control	1
Informants	1
Lunch pail inspections	1
Pass system	1
Plant protection, post and patrols	3
Tool checks	1
<u>Internal Control Policies</u>	
Audit, monthly-annual	7
Bank deposit control	1
Outside accounting firm	3
Comparative reports	1
Distribution of work	3
Document control	3
Inventory, quarterly-bi-annual, annual	7
Management supervision	1
Production reports	1
Scrap metal reports	1

The above phrases are from actual comments made by management personnel during the interviews.

\*Figures here represent a number of policies found in firms sampled.

Some firms had more than one policy in effect.





The responses from this question indicated some lack of understanding on management's part about the term "internal control." As indicated, some firms were uninformed about internal controls, found no need for their existence, or felt all their employees were basically honest. Some respondents listed an internal control procedure; others listed physical security procedures; and others replied with both procedures.

The conclusion indicates that not all personnel on the management level interviewed were sufficiently informed about the functioning and need of this type of control.

Question 2, "In your opinion, are these policies effective for the purpose intended,?" was used to reflect management's attitudes. This question required a yes or no answer and obtained the following results:

Yes	20 Firms
No	0 Firms

Fourteen of the respondents gave no reason for their opinion in this question.

Some of the replies received are worthy of mentioning to show management thinking in regard to their control policies.

One safety and security director stated, "Past experience indicated our controls prevent large things going out, but not the little things. Employees are to check with me first before taking small items. A certain amount of

little things going out is good for employee relations."

One sales manager stated, "There are only two people in management. There is no problem; all employees are honest."

One office manager stated, "Our policies are effective, as they are the only type needed for the cost involved."

Question 3, "In your opinion, what causes contribute to employee dishonesty or theft in manufacturing enterprises?," the question was inserted to find out the knowledge management had regarding the causes of the problem. The following list of contributing causes of employee dishonesty and theft was collected from the survey sample.

Causes Listed by Two or More Firms

Not enough pay	8
For own use	8
Exposed items--easy to reach	4
Human nature to steal	3
Conditions at home	3
Poor communication between management and employees	3
Dissatisfied employee	3
Grudge against company	3
Lax supervision	3
Poor background	2
Family sickness	2
Desire to steal a consumer product	2
Careless stock controls	2

The above causes were given by more than one firm. The number of management personnel responding to the same cause is indicated by a figure after each cause.

Causes contributing to employee dishonesty are shown below in group classifications.

Firm Induced Causes

Not enough pay	8
Poor supervision	1
Loss of respect for employer	1
Protective force low	1
Lack of regulations for proper controls	1
No background check on employees hired	1
Poor communication between management and employees	3
Exposed items easy to reach	4
Product not offered at reasonable price to employees	1
Lax supervision	3
Grudge against company	3
Bad management	1
No inventory	1
Poor personnel selection	1
Lack of internal controls	1
Lack of tools to do a job	1
Careless stock controls	2
No scheduled reports	1
Dissatisfied employee	3

Outside Influence

Debts, too much spending	1
Keeping up with Jones'	1
Gambling	1
Tools for large profit	1
Items for resale	1
Takes small things	1
Need material for outside activities	1

Home Induced Causes

Family sickness	2
Background--unsupervised children	2
Individual grew up a thief	1
Conditions at home	3

Human Induced Causes

Steals for sake of stealing	3
Carelessness of employee	1
For own use	5
Human nature to steal	3
Deterioration of morale	1
Employee feels company owes him	1
Desire for product-consumer type product	2
Dishonest person	1
Unstable and discontent	1
Weakness of character	1
Lack of conscience	1
Person either a bad or nice person	1

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There were forty-two different causes given by the respondents as contributing factors to employee dishonesty or theft. Thirteen of the causes were given by respondents in two or more firms. Nineteen of the total forty-two were classified as firm induced causes. This represents a forty-five per cent cause-factor induced by firms in manufacturing sample.

It can be concluded that forty-five per cent of the causes of theft or employee dishonesty can be corrected by the firms' provision of proper security controls, increased effort on the part of management to improve employee relations, and that other causes can be corrected by pre-employment screening or a background check. The use of the polygraph can be used to detect the human induced causes. This information suggests a three-way policy for management to reduce the problem of employee dishonesty.

Question 4, "What can your departments do to control employees who, in violation of the law or company policy, contribute to dishonesty losses (a) that you are doing now, (b) that you are not doing now?" Nine firms did not reply to the (a) part of this question or stated they could do nothing. Fourteen firm managers made no responses to the second part of this question. The following is a list of other responses received:

## Part (a)

Employee rules

Rules call for discharge of any thief

Supervision and surveillance

Keep on improving methods

Budget controls

Dismissal or other discipline

Catch violators, posters, publicize rules and penalties--  
word of mouth after apprehension

Internal controls

Purchasing--Keep track of invoices and quantity, order date  
and check excessive usage

Security program in effect, plant guards

Comply with rules, if caught stealing, discharge employees

## Part (b)

Perpetual inventory on tools in shop, supervise check out  
of tools at crib, check tool boxes and personal effects of  
employees

Increase inspection

Do more cross checking and inventory every 6 months

Key control points--material check of material flow between  
points

Check on subordinates

Fire them

This question was a searching one that received poor  
response. It did indicate that certain things were being  
done to prevent employee dishonesty.

The conclusion drawn from the above responses was



that management in the firms surveyed were generally satisfied with their efforts to control dishonest employees.

Question 5, "What can management do to control or minimize dishonesty losses?," was used to bring out the respondent's attitudes toward top management's position regarding the theft problem.

Two firms did not respond to the question. One stated that they had no problem and that all employees were honest. The following responses were given:

Display posters about discharge

Dinner bucket inspection

Improve shipping memos to cover items taken from factory

Put in more controls to reduce problem

More guards plus installing detection and deception devices

A close check on items taken out

Management above supervision level give problem more thought

Better controls and protection, lock doors

Management back security

Better personnel selection

Supervision on internal controls, create proper conditions to prevent stealing

Constant controls

Set up procedure for tool check

Install guards, morale discussion with employees

Enforce present rules, catch thief and set example by discharging him

Personnel supervisor sympathetic of employee problems

Publicity on controls

Perhaps it could be assumed from the above results that top management could do more to devise policies to control the problem. The results also indicated that more thought was required by top management concerning the employee dishonesty problem.

Question 6, "Are your security operation duties set forth in your company rules and policies?, \_\_\_yes, \_\_\_no. If yes, obtain a copy when possible." See Table XIV below for results obtained from the question.

Table XIV

Availability of Published Security Duties for Management in Survey Firms

Duties Set Forth Rules & Policies	Duties Written In Rules & Policies	Copy Available
6 Firms, yes (30%)	4 Firms, yes (20%)	1 Firm had copy (5%)
14 Firms, no (70%)	16 Firms, no (80%)	19 Firms, no copy (95%)
—	—	—
20	20	20

This table indicated that the majority of firms sampled in the survey area did not set forth respondents' security duties in company rules and policies, written or unwritten.

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Only one firm had a copy of their security rules and policies available in written form, but the copy had no significant value to this study. It was a Security Manual for Safeguarding Military Information under Government contract.

A conclusion here indicates that the firm sampled in the survey area may have found no need to include the management's security duties in company rules or policies and that security duties were not generally designated for all levels of management.

Question 7, "Are there any offenses against the company rules or policies that you feel should always be prosecuted in an appropriate court?,     yes,     no."

Question 8, "What are these offenses?"

Question 9, "What reasons do you have for always referring these offenses to court for prosecution?"

These questions were related to each other and the responses are consolidated at this point to reflect management's attitudes toward prosecution.

Fourteen respondents stated that there were offenses they felt should always be prosecuted in court. Six felt they would not prosecute in court; therefore, they gave no offenses to be prosecuted. One of the six felt prosecution would only delay their operations.

The respondents gave the following offenses and their reasons for prosecuting in each case:



<u>Offense</u>	<u>Reason</u>
All offenses- - - - -	Should prosecute according to law always
Depends on item stolen - - -	Believe in honesty
Depends on circumstances, - - taking money or finished product of any value	Because of personal loss and to straighten man out
Direct theft- - - - -	Publicity--can't get away with it
Destruction of property - - -	Serious--cannot give second chance--would not want man back
Embezzlement of large sums -	No reason given
Large amounts of money, - - - backing truck up and load- ing with stolen property	Financial reasons--to recover property and get machine time back
Large theft - - - - -	Recovery of property and act as future deterrent
Removal of company property -	To recover company property and for future prevention
Taking tools- - - - -	Going to court stops one from taking larger things
Theft of any item - - - - -	Prove that we do not condone such violations
Theft of material amounts - -	General obligations to public
Theft and misappropriation -	Make example
Theft--willful destruction -	Basic morality--reassurance

It would appear from the above tabulation that management would prosecute largely for theft. They recognize the problem's existence; they favored prosecution to recover property and prevent further theft.

Question 10, "Are there any offenses you feel should

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never be referred for prosecution?, \_\_\_yes, \_\_\_no."

Question 11, "What are these offenses?"

Question 12, "What reasons do you have for not referring these offenses to court for prosecution?"

The above questions were consolidated for the same reasons given for questions 7, 8, and 9. Eighteen respondents stated there are offenses that should never be referred for prosecution, one respondent did not answer (gave no reason), and one person replied, "Not here in this organization, but we would not prosecute for petty theft providing employee gave a reasonable excuse." Others responded as follows:

<u>Offense</u>	<u>Reason</u>
Depends on degree of offense, but not petty offense	Public image aspect
Fighting--drinking- - - - -	Prefer not to make judgment on a serious case here
Items under \$1.00 - - - - -	Man can return a tool, supervisor confer with the man, lick the problem and help the man
Little items, scrap less- - - than a dollar	Minor--people do not do it to steal--too small to bother with
Minor things, tools first - - offense	Would use too much time or hurt employees
Minor things, petty - - - - -	Better labor relations have to bring in company worker to testify
Minor theft - - - - -	Can handle it at plant level, because it affects life of man



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Minor theft - - - - -	Small theft everywhere, a talking to better for shop discipline
Minor theft - - - - -	More efficient to handle in company--better for shop discipline
Minor - - - - -	Minor
Minor - - - - -	Too small to bother with
Petty offenses- - - - -	Hard on person--no recommendations for another job--not corrected by court action and hardship on family
Petty theft - - - - -	Discharge to get rid of employees
Petty larceny - - - - -	Courts too full to take on little stuff, company too busy to take time to prosecute
Small items - - - - -	Too much time and hard on man
Small offenses- - - - -	Human element should be considered; good employer--good home life

The conclusion arrived at from this information indicates that management in the survey sample tolerates a certain amount of dishonesty. This attitude may be general in manufacturing enterprises as a whole. A larger sampling for a broader analysis is required to determine if the attitude contributed to the causes of theft and employee dishonesty.

Question 13, "Who makes the final decision concerning the disposition of an employee dishonesty case?" See Table XV below for the responses to this question.

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Table XV

## Management Decision-Making Level in Dishonesty Cases

Position Title	Number of Firms	Per Cent
President	7	35%
General Manager	4	20%
Owner	2	10%
Safety & Security Director	2	10%
Vice President	2	10%
Asst. Secretary-Treasurer	1	5%
Plant Manager	1	5%
Office Manager	<u>1</u>	5%
Tabulation	20	

Sixteen respondents in the position of owner, president, vice president, general manager, and assistant secretary-treasurer were considered as top management. Eighty per cent of top management in the survey sample made decisions in dishonesty cases.

It would appear from Table XV above that top management became active in a dishonesty case after a loss occurred.

Question 14, "Are there some dishonesty cases in which the employee is neither suspended, discharged, or prosecuted?, yes, no."

Question 15, "What type of cases are these?"

These questions were consolidated for reasons stated before. They were attitude questions, and were inserted as a check on management's degree of tolerance concerning the problem.



Fourteen respondents said "yes" to question number 14, and four said "no" to this question. The type of cases in question and the reasons given are as follows:

<u>Offense</u>	<u>Reason</u>
Error in count on production figures	Settle through labor management
Minor - - - - -	Small theft everywhere--talking to better than court
Minor - - - - -	Not material enough to blacken man's name
Minor - - - - -	Operation ties up--loss not enough
Minor - - - - -	Money for attorney
Minor cases - - - - -	Help discipline and morale among employees
Minor offenses- - - - -	Man returns tool, and saved by this, man is helped
Minor offenses- - - - -	Warning takes care of it, saves employee and gives him a second chance
Minor offenses- - - - -	Better labor relations
Minor theft - - - - -	Internal company action
Petty theft - - - - -	Can handle at plant level
Petty theft - - - - -	Past experiences and good record may keep man on job
Turn in false piece report- -	Matter of proof--company handling

These responses reflected a certain degree of tolerance for employee dishonesty when minor offenses were involved.

The presumptions made from the above responses are that management has a great investment in trained employees,

rehiring is expensive, and retention on the job is less expensive than suspension, discharge, or prosecution for minor offenses.

Question 17, "How do you think the other departments in this company feel about employee dishonesty and theft?" This question was used to test the general attitudes of other departments in the sample firms.

Seven respondents in the twenty-firm sample did not respond; one respondent said, "I have no idea, as all people in the firm are new"; and one firm had only one department, making the question inapplicable. The remaining eleven respondents gave the following answers:

How Other Departments Feel About Employee Dishonesty  
 All cases do not condone it--reflects on them  
 All frown on it  
 Basically same, no opposition  
 Do not want--against theft  
 Feel same--would not tolerate  
 Lots are unaware of it  
 Not good, contrary to company ethical and moral policy  
 O.K.  
 Same views  
 Think policies are fair and should be enforced  
 Yes, same

These responses indicated that about fifty per cent of the persons interviewed had knowledge about the other

departments' views toward employee dishonesty.

The conclusions here show that management in the survey area was primarily concerned with the thinking in its own departments; and that possibly there was a lack of common effort by all concerned collectively to stamp out the problem.

Question 18, "How do you feel about the security organizations in this firm which are concerned with the dishonesty problem?" The question was presented to the sample firms. It was not applicable in over fifty per cent of the cases, as over half of the firms surveyed did not have personnel assigned to security operations. See Table XIV, page 78. Those respondents whose firms had security organizations operated by full-time, part-time employees, or watchmen, had this to say:

#### Respondents' Feeling About Their Security Organizations

3 Firms	Adequate
3 Firms	Good
1 Firm	Satisfactory
1 Firm	Serves its purpose, could put on more help
1 Firm	Very good

These comments reflected a general satisfaction about the security organization in the firms utilizing such an operation.

It may be presumed that there was not enough dishonesty



loss awareness by management in the survey sample to establish improved or new physical control methods, and that they were satisfied with their present form of physical security.

### Summary

The internal control policies in effect in firms studied in this survey varied from none to combinations of internal control procedures and physical security methods. A few respondents were not familiar with the term "internal controls." Others thought physical security would solve all problems, and a few shunned all forms of control in favor of the "all employees are honest" policy.

Two or more firms listed the same contributing causes for dishonesty losses. The majority of causes were firm induced. It is possible for all causes contributing to theft or employee dishonesty to be proportionately reduced with directed effort by management. Internal controls, physical security, employee background checks and the use of the polygraph, as required, would certainly eliminate many causes.

It appears that management should change some attitudes to minimize the problem. Several respondents felt their department should do more to control employees, and also felt that top management in their firm could do more to reduce losses.

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The survey showed a lack of designated security duties written or unwritten in company rules at all levels of management.

There was, in general, a negative feeling regarding the dishonesty of employees. Prosecution was favored for serious violations. On the other hand, there was a sympathetic attitude toward the petty thief. Prosecution, discharge or suspension were not favored in this instance, leaving the impression that taking little things is not stealing.

If a dishonesty case appears in the firms studied, top management makes the disposition of the case.

Some department heads were only concerned about their own immediate departments and did not know how other departments felt about employee dishonesty. Others indicated there was a general feeling by all departments against theft and dishonesty.

Firms with security organizations tended to feel that such an operation was adequate. However, it was concluded that there was room for a dishonesty and theft-conscious program at all levels of management.

## CHAPTER VII

### SURVEY RESEARCH FINDINGS--CONTROL METHODS AND TECHNIQUES

The data collected in this portion of the interview schedule were used to determine the control methods and the techniques in effect in the sample firms at the time of the survey. Dishonesty exposure, theft experience, and security functions of management were discussed with the respondents to learn more about their approach to the problem.

Question 19, "What type of places in your firm are vulnerable to the problem of theft or employee dishonesty?" This question was a prompting one to search for places in the firms studied that required security and as a lead to the questions on theft and employee dishonesty. The respondents reported the following:

#### Places Vulnerable to Theft or Employee Dishonesty

2 Firms	Assembly department, gas pump
1 Firm	Assembly line and stock room
1 Firm	Counter work and delivery service
2 Firms	None
1 Firm	Shop manufacturing area
1 Firm	Parking lot and trucks
1 Firm	Small provision tool area
2 Firms	Stock rooms
6 Firms	Tool and tool room
1 Firm	Unguarded entrances
1 Firm	Truck driver, no check on leaving
1 Firm	Warehouses

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The above information indicated that places where finished products were processed had a vulnerability for thefts. Stock room tools and tool rooms were also highly vulnerable to theft in the surveyed firms.

It is apparent that increased security should be placed in areas where material is stored, tools are kept, and assembly areas where stock items, materials, and tools are in use to make a finished product.

Question 20, "What type of operation in your firm helps prevent theft or employee dishonesty?," was asked to test respondents' knowledge about security operations. Three respondents did not answer, one did not know, and one replied, "Nothing. We have the honor system." The other respondents offered the following information to this question:

#### Theft and Dishonesty Prevention Operations

Constant supervision in material handling--scrap control

Payroll control

Internal controls

Inventory

Physical checks

Plant protection--supervision--change of operators and loaders  
(2 firms)

Produced a finished product having no employee value (3 firms)

Requisitions for tools

Supervision by owners

Tight control in stock rooms

Work order control, checks, no cash (2 firms)

Payroll control, scrap reports, and inventory

This information shows that management in some instances has developed operations to prevent theft, but only one firm in six, reported in the preceding question (No. 20), did anything about tool security. There were, however, indications that supervision, physical security and control were present to prevent dishonesty losses.

The conclusion drawn from this question shows that management typically was making some effort to control dishonesty losses, but its effort was only in proportion to its security need and loss experiences.

Question 21, "What type of activities in your firm contribute to the problem of employee dishonesty?," resulted in the following when presented to the respondents:

#### Activities Contributing to Employee Dishonesty

13 Firms	None
1 Firm	No idea
1 Firm	Hard to answer
1 Firm	Carelessness
1 Firm	Less supervision on 3rd shift
1 Firm	Production of valuable scrap
1 Firm	Truck drivers--Insufficient guards
1 Firm	Lack of surveillance

The preceding answers show that respondents, at the management

level in sample firms, were not familiar with the types of activity contributing to dishonesty losses, did not admit having any contributing activities, and only a few were aware that such activities existed.

This question did not bring out sufficient information to draw any definite conclusion.

Question 22, "What type of activities in your firm help prevent dishonesty losses?," was inserted to learn more about the dishonesty problem in sample firms. Eleven respondents did not answer, two said "None," and one said, "We have an over-all honesty policy." The others responded as follows:

#### Activities that Prevent Dishonesty Losses

Delivery control

Control packages going out

Education activities and surveillance

Foreman talking to men about tool security

Give scrap material for the asking

Records check

The respondents did not possess sufficient information about the activities in their firms to answer this question properly.

Question 23, "What are your duties as an official in this firm regarding the security operations?," brought the following answers:



## Management's Security Duties in Sample Firms

- 3 Firms No response
- 3 Firms Nothing
- 1 Firm Checks--Keep an eye on bank deposits and auditors
- 1 Firm Check on division--overall security supervision
- 1 Firm Chief Security Officer
- 2 Firms General overall supervision
- 1 Firm Internal controls
- 1 Firm Internal audit, general audit, and analysis
- 1 Firm Comparative reports and monthly reports
- 1 Firm Maintain guard force, investigations, observations, and inspection of internal control procedures, control invoices and order numbers, and checks for distribution of work
- 1 Firm Observations only--none otherwise
- 1 Firm Open mail and control checks
- 1 Firm Overall supervision--nothing otherwise
- 1 Firm Supervision reports to assistant secretary-treasurer
- 1 Firm Watch the problem--spot checking

The answers to this question reflected some security operation duties at several levels of management in the firms sampled. It also indicated a general security supervisory responsibility in respondents' respective positions regarding his normal work day.

From the results obtained in the question, one could believe that management, in the absence of written or unwritten rules, had assumed a degree of supervision in security

operations as applied to internal controls and physical security in their firms.

Question 24, "What are your other duties?" (for a person assigned to part-time security operations). This question was inserted in the interview schedule to learn more about the duties assigned to each respondent.

Five respondents indicated that the question was not applicable to their position in the firm, so did not answer the question. Nine others did not answer the question, and the others answered as follows:

#### Respondent Duties Assigned to Part-Time Security

Administration, labor relations, comptroller, assistant to president

Administration, suggestion program, community relations

Comptroller and office manager

Office manager and assistant

Personnel department

Personnel director and industrial engineer

This information indicated that thirty per cent of the respondents considered their security responsibilities a part-time duty. The others, seventy per cent, did not consider any of their responsibilities a part-time duty in their security operation.

It could be presumed that respondents, not specifically assigned to security duties, did not consider any portion of their work as part of a security operation.

Question 25, "How is your work day spent? Place a one (1) by the activity which occupies most of your time, two (2) by the activity which takes the next greatest portion of your time, and continue in the manner given through the list of activities below:

- a. \_\_\_\_\_ Administrative duties on internal controls
- b. \_\_\_\_\_ Observation of places that contribute to dishonesty losses
- c. \_\_\_\_\_ Investigation of dishonesty cases referred to you for disposition
- d. \_\_\_\_\_ Report writing
- e. \_\_\_\_\_ Contacts with departments, referrals, and follow-ups for employees in need of further supervision
- f. \_\_\_\_\_ Inspection of places or operations vulnerable to dishonesty losses
- g. \_\_\_\_\_ Other activities. What are these?"

Four respondents stated none of the above listed duties pertained to their work day. The remaining respondents reported the following:

Respondent Work-Day Distribution

<u>Duty</u>	<u>Number of Firms</u>	<u>Priority</u>
a. Administrative duties on internal control	12	1
b. Observation of places--dishonesty losses	2	1
	4	2
	1	3
	1	4
	1	5

	1	6
c. Investigation of dishonesty cases	1	1
	1	2
	1	3
	1	5
	2	6
d. Report writing	5	2
	4	3
	2	4
e. Contact with other departments	2	2
	3	3
	3	4
	2	5
f. Inspection of places or operations	1	1
	2	2
	1	3
	3	4
	1	5
	2	6
g. Other activities	1	Labor relations
	1	Fire inspection
	1	Action communication

Responses to this question were not too conclusive. Some of the respondents, by virtue of their position, placed

different priority on the security duties listed. Others did not include some of the security duties above as part of their work day. The majority of respondents in the management levels interviewed placed a portion of their security duties on administration of internal control and report writing. Others distributed their work day in various security activities placing a different combination of numerical priority on the tasks listed.

The investigator concluded from these answers that a portion of management's work day in the firms surveyed was spent on security duties, and that these duties were not defined in company policies, rules or placed in a security manual.

Question 26, "How do you get your dishonesty cases?"

(Instruction for answering this question was the same as required in question number 25.) It was asked as a searching question to learn the source of dishonesty cases within the firms sampled and covered the following:

- a. \_\_\_\_\_ From plant protection personnel
  - b. \_\_\_\_\_ From finance department personnel
  - c. \_\_\_\_\_ From shop foreman
  - d. \_\_\_\_\_ From other supervisory personnel
  - e. \_\_\_\_\_ From the supervisor
  - f. \_\_\_\_\_ From employees
  - g. \_\_\_\_\_ Others; what are those other sources? \_\_\_\_\_
-

One respondent indicated that he did not get his dishonesty cases from any of the sources listed. Other persons interviewed responded as follows:

Source of Dishonesty Cases

<u>Source</u>	<u>Number of Firms</u>	<u>Priority</u>
a. From plant protection personnel	2	1
	1	2
	3	3
b. From finance department personnel	2	1
	1	2
	2	3
	1	5
	3	6
c. From shop foreman	6	1
	6	2
	1	4
d. From other supervisory personnel	2	1
	4	2
	3	3
	2	4
e. From your supervisor	3	1
	2	2
	2	3
	4	4

	2	5
	1	6
f. From employees	2	1
	3	2
	3	3
	1	4
	3	5
g. Others, what source	1	Internal audit
	1	Time keeper piece count
	1	Partner and self
	1	Another plant

The results obtained from this question showed that the majority of dishonesty cases were referred to management by shop foremen, supervisory personnel, and employees. Other firms receive dishonesty cases from the sources listed, but placed a different order of priority on them.

A conclusion here would indicate that dishonesty cases referred to management come from various sources depending upon the size of the firm; that reporting sources are different in firms depending on their organizational structure; and that few referrals came from built-in security measures, such as internal control methods and physical security techniques.

Question 27, "What are some of the examples of the control methods and techniques that exist in this firm to

prevent dishonesty losses? (Ask for a comment on the use of the polygraph.)" This question was inserted to draw out additional information on security control and was directly related to question number 1 in the interview schedule.

Table XVI

## Example of Control Methods and Techniques in Sample Firms

Method or Technique	Number of Times Found in Sample Firms
<u>Undetermined</u>	
None	2
Honesty policy	2
<u>Physical Security</u>	
Protection agency	2
Equipment check	1
Gas pump check	1
Locker check (locked)	1
Lunch pail check	1
Pass system	1
Plant protection and patrols	5
Stock room check	1
Tool checks	1
Truck checks	1
<u>Internal Controls</u>	
Audit, monthly, quarterly, annual unannounced, internal, payroll	11
Cash, little on hand	1
Certified public accountant	7
Comparative reports	1
Distribution of work	1
Daily check-end operations	1
Document control	2
Inventory, monthly, bi-annually, 6 month, perpetual	14
Piece count	1
Published controls	1
Scrap reports	1
Volume control, material	1



Basically the same information was collected from this question as was obtained from questions number 1 in the interview schedule. More firms reported audits and inventories as a method or technique to prevent dishonesty losses as compared to the same listing under internal control policies (see Table XIII, page 70). Regardless of the inconsistencies between these two questions, audits, inventories, and certified public accountants received top billing as an internal control policy, technique, or method of control for the prevention of dishonesty losses in the sample firms.

In regard to the question on the use of the polygraph, seventeen respondents made no comment on it. The others stated that it was good if used correctly for certain cases, but not for across-the-board use. The survey did not disclose the use of the polygraph in any of the sample firms.

The results from this question showed that no new security control methods or techniques were being used in the sample firms; old established controls were being used, and none of the firms selected in the sample found a need for the use of the polygraph.

Question 28, "How effective are these methods and techniques?" One respondent made no comment, and the other nineteen felt their methods and techniques were effective, adequate, good or served their purpose.

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It may be concluded that management in the sample firms had not been faced with a requirement for additional controls or new methods and were generally satisfied with control methods and techniques presently being used in their firms.

Question 29, "Do you have a theft problem in this firm?, yes\_\_\_, no\_\_\_."

Question 30, "If yes, what are these problems?"  
These questions were reported together as they were related.

Nineteen respondents replied in the negative to a theft problem. One reported a theft problem at the time of the survey created by employees stealing merchandise and equipment.

It was possible to conclude from the responses that the personnel in the management levels interviewed were not aware of an existing theft problem or would not admit to one, or perhaps felt that all their employees were honest.

Question 31, "If no, has there ever been a theft problem in the past?" This question was related to question number 29 above, but was treated separately because it received more responses. Thirteen firms stated that they had no theft problems in the past. The others responded as reflected in Table XVII below.

1  
Y  
3  
I  
K  
Y  
S  
Y  
Y  
E

Y  
S  
Y  
16

Y  
16  
Y  
16

16  
16  
16

Table XVII

## Past Theft Problems in Sample Firms

Type of Theft	Number of Firms	Percentage
None	13	65%
Going on in plant continually	1	5%
In-plant--false machine count	1	5%
Minor-money from open locker	1	5%
Misuse of company charge account	1	5%
Small items--gloves	1	5%
Yes-no type given	1	5%
Yes, 5 in ten years	1	5%
No type given	—	
Total Firms	20	

Ninety-five per cent of the firms reported no theft problem at the time of this survey (see question number 29). Sixty-five per cent of the firms reported no past theft problem. Thirty-five per cent of the firms had theft problems in the past, but did not report any major larcenies.

The conclusion developed from the above information indicated that the internal controls and physical security needs were in proportion to the reported theft experience in the sample firms. It could be possible that the management level interviewed was not aware of a problem existing.

Question 32, "If there has been a problem in the past, what was done to control it at this time?" This question was inserted to learn corrective measures taken by the firms that reported a theft problem in the past.

This question was not applicable to the firms that reported no problems. The other respondents reported the following corrective actions were taken:

Corrective Action

Locker checks--employee discharged (thief)  
Offender at large--complaint open in police files  
Old gloves exchanged for new ones  
Issued credit cards to authorized personnel  
Increased plant protection effort--additional guards  
Removal of operation to another plant in the firm  
Supervision of foreman increased on machine count

The answer to this question showed satisfactory corrective action for the degree of seriousness of each offense involved. No conclusion could be drawn. The facts showed that corrective action was taken; that the firms reported no recurring theft problem; and they felt this action was sufficient.

Question 33, "Do you have other employee dishonesty problems in this firm?, \_\_\_yes, \_\_\_no." Seventeen firms reported no to the question. Three respondents reported as follows: one stated there was a "bad count on production"; one said they had "time delays--dead time"; and one reported "an inventory shortage due to lack of controls."

Question 34, "Repeat questions number 30-32." This remark was a note for the investigator to repeat the questions as related to question number 34. Three firms were

involved here and the respondents reported, "Closer checks, improved supervision," and "nothing," respectively for the action taken to correct the dishonesty reported in question 33.

Again, no conclusions of any significant value could be drawn from the answers to these questions. It appeared that the firms surveyed had no thefts or employee dishonesty problem past or present that created a strain on security controls in the manufacturing enterprises selected.

#### Summary

The data collected in this portion of the survey showed that stock rooms and tool rooms were highly vulnerable to thefts, but only two firms considered preventive measures in this part of their operation. It would appear that the security measures adopted depended entirely upon needs, cost of controls and loss experiences.

There was some doubt as to the reliability of information about activities contributing to employee dishonesty. It may have been influenced by the "people are honest" policy or management pride in the sample firms. Management personnel interviewed did not admit to such inefficiencies, were not aware of dishonest activities, or did not have sufficient operational knowledge about their firms.

In the absence of specific security duty assignments, management assumed a certain degree of supervision over

security controls in their normal work day; however, there was a general lack of knowledge about control methods and techniques. Most of the respondents interviewed had a primary job removed from full-time security operations, but they did concern themselves with administration and reports pertaining to internal controls when it fell within the scope of their principal duties.

Theft or employee dishonesty cases that might develop in the sample firms were referred to management by shop foremen, supervisory personnel, and employees. Management appeared to rely on this method of detection rather than imposing elaborate physical security techniques and internal control measures.

Conventional control methods were generally acceptable by management as a normal business practice. New methods and techniques to safeguard assets had not been established in any of the sample firms. Their theft and employee dishonesty experience did not show a need for new developments. Past thefts were minor in nature, but could become serious in time; however, they were handled by simple, inexpensive correction procedures.

Some theft and employee dishonesty existed in the selected manufacturing enterprises, but it was not large enough to gather data concerning different control methods and techniques used to reduce losses. Most of the sample firms applied established practices, such as audits,





inventories, certified public accountants, and plant guards,  
to curb the dishonesty problem.

## CHAPTER VIII

### SURVEY RESEARCH FINDINGS--LOSS EXPERIENCES

The losses experienced by the selected firms in the sample area should determine the effectiveness of the control procedures, and explain management's policies and attitudes toward dishonesty losses. The information in this chapter was used to evaluate the security programs in each firm. Economy was a big factor with each firm in determining the degree of control needed in relation to their losses. Some firms found it more inexpensive to take a calculated risk against losses. Other firms felt it best to bond their firms against losses. Fidelity coverage places the burden of detection, recovery, apprehension, and prosecution on the bonding agency; therefore, it reduces the need for elaborate and expensive security control measures in small firms.

The interview schedule revealed the following data regarding dishonesty losses.

Question 36, "What were the losses in 1962 in this firm to the nearest dollar caused by?"

- a. \_\_\_\_\_ Theft
- b. \_\_\_\_\_ Embezzlement
- c. \_\_\_\_\_ Misappropriation
- d. \_\_\_\_\_ Fraud

- e. \_\_\_\_\_ Manipulation of records
- f. \_\_\_\_\_ Inventory shortages caused by dishonesty
- g. \_\_\_\_\_ Others; specify \_\_\_\_\_

This question was used to draw out additional information from respondents about dishonesty cases. The other related offenses to the problem were suggested to cover different areas of defalcations and theft. The responses in the sample firm resulted in seventeen negative answers to this question. In other words, the majority of firms sampled in the survey area had no dishonesty problems in 1962. The three remaining firms reported the following loss for the year in question.

Table XVIII  
Loss Experience--1962--Sample Firms

Number of Firms	Offense	Loss
1	Theft	*Unknown
1	Inventory shortage	*Unknown
1	Inventory shortage	<u>\$3,000.00</u>
	Total loss reported	\$3,000.00

\*Losses reported by two firms in the survey area were undetermined as to the amount.

One respondent in a large firm in the sample said, "I do not know the amount of the loss. No one has put a figure



on it, but it is going on." Another respondent said, "They had a normal amount of inventory shortage caused by dishonesty." The third responding management representative fixed the inventory shortage at \$3,000.00, but added, "The firm feels it would be too expensive to place tight controls on this."

The conclusion reached here is that some levels of management do not know of their losses; do not admit having any as projected by the 85% negative responses to this question; that 15% of the sample firms surveyed had a loss experience, but considered it not important enough to apply control measures; and that this attitude toward control measures, policies, methods and techniques to minimize dishonesty losses contributed to theft and employee dishonesty problems in business and industry.

Question 37, "What were the total annual dishonesty losses in this firm for the past ten years to the nearest dollar figure?" This question was related to questions number 32, 33, 34, and 35 to determine if the loss experience for the past ten years had any direct bearing on the problem reported by the sample firms prior to 1962.

Fourteen respondents replied in the negative to this question, one did not know of any dishonesty losses in the past ten years in his firm, and the remaining five responded as shown in Table XIX below.

Table XIX

**Annual Dishonesty Losses of the Past Ten Years in Sample Firms**

Number of Firms	Offense	Year	Loss
1	Not reported	Past 10 yrs.	\$50.00
1	Theft	1954	\$1,800.00
1	Embezzlement	1959	\$3,700.00
1	Unauthorized credit	1961	\$175.00
1	Embezzlement	1958	\$4,000.00
Total loss reported			\$9,725.00

Management in the sample firms, when confronted with actual losses, responded in 25% of the cases to the existence of theft or employee dishonesty. This was considered adequate for data analysis. In fact, the percentage showed favorable results for the size of the sample.

Conclusions--Although employee dishonesty (25%) in the survey sample area exists in direct proportion to management losses, it may or may not be consistent to predict that the loss percentage in a larger area (United States) would be the same. However, if this did prove to be true, management would have a problem to resolve necessitating a change in attitudes, policies, control methods, and techniques to minimize dishonesty losses. The programs





in effect to reduce dishonesty losses were effective in the sample firms, but were not adequate when viewed from the labor market as a whole.

Question 38, "What is the amount of fidelity bond or honesty insurance carried by your firm?" This question was used to determine the percentage of sample firms that were covered against dishonesty losses, and to understand further the reasoning behind management's policies and attitudes toward the problem. The data collected from responses are shown in Table XX below.

Table XX

## Fidelity Bond or Honesty Insurance Coverage in Sample Firms

Number of Firms	Type of Coverage	Amount of coverage	Per cent
6	None	--	30%
3	Unknown	Unknown	15%
2	Insurance	Unknown	10%
1	Bond	\$500.00	5%
1	Bond supervisors	\$25,000.00	5%
	Bond employees	\$10,000.00	5%
1	Bond	\$60,000.00	5%
1	Bond	\$100,000.00	5%
1	Bond	\$50,000.00	5%
1	Bond	\$10,000.00	5%
1	Bond	\$100,000.00	5%
1	Bond and Insurance	\$10,000.00	5%
		\$2,000.00	5%
1	Insurance	\$100,000.00	5%
<hr/>			
20 Firms			

Thirty per cent of the firms sampled in the survey



area were not covered by fidelity bonds or honesty insurance. This figure was higher than the 15 to 20% "no coverage" reported by bonding and insurance companies for business and industry as a whole.

The conclusion developed from this question indicates that management's policies and attitudes toward dishonesty losses, security control methods, and techniques were influenced by bond or insurance coverage. Management showed a tendency to rely on an outside agency to deal with their dishonesty problem; this coverage was the deterrent required to minimize dishonesty loss without establishing expensive control measures and techniques.

Question 39, "Obtain copies of any policies, reports, or other material used in firms' internal control operation if possible." This was a reminder item inserted for the investigator to collect any written material prior to termination of interview and departure. This request was not fulfilled by nineteen firms in the sample. One firm furnished a written security manual covering control of classified documents that was not current at the time of the survey. It was not related to this study.

### Summary

There was some evidence indicating that management was aware of their dishonesty losses through past theft experience. In other instances management seemed totally



unaware of any existing problem.

Inventory shortages, theft, embezzlement, and misuse of credit were found to be in existence within the past ten years in the survey firms. The majority of these firms, however, were covered by fidelity bonds or insurance against these losses.

The fidelity coverage may explain management's tolerance towards the problem resulting in the magnitude of controls and policies implemented to reduce losses in the survey firms.

## CHAPTER IX

### SURVEY RESEARCH FINDINGS--RELATIONSHIP BETWEEN LOSS EXPERIENCES, MANAGEMENT'S POLICIES, ATTITUDES AND CONTROLS

Figures 1 through 6 are visual indications of the data reported in Chapters VI, VII, and VIII.

Comparatively speaking, management's policies in the firms surveyed matched the control methods and techniques, with some exceptions. As shown in Figure 1, there was a difference between security control policies and the implementation of these policies by control methods and techniques. For instance, seven respondents reported audits as a control policy and eleven of the firms established them in their security program. In Figures 4 and 5, five of the firms matched their audit policy with a method to accomplish this objective. Six firms listed audits in their security policy or used them as a method without making both companions in their security program.

Seven respondents reported an inventory policy and fourteen reported it as internal control method in Figure 1. Five firms used the inventory procedure as companions. The respondents for the other firms reported an inventory as either a policy or method without considering both components in their security program (see Figures 4 and 5).

Plant protection was treated in the same manner by



respondents. Three possessed a policy in this area and five implemented it as a security technique. Two firms matched the policy for a technique while the remaining firms reported them separately as components in their security program. Reference is made to figures cited above for a comparison of the firms charted.

In regard to the dishonesty problem and loss experience shown in Figure 2, the data do not compare too well with the attitudes of management with a theft or employee dishonesty problem. Figure 6 shows the four firms, numbers 5, 10, 17, and 20, had dishonesty problems. All these firms, except number 5, indicated effective internal control methods and techniques. The scope of the theft or employee dishonesty problem had an influence on attitudes. If the loss was minor, security controls were labeled effective. Firm number 5 had a unique problem and was treated separately as a case study in Chapter IV.

A tolerance on minor dishonesty cases was generally accepted by personnel interviewed in order to better their labor relations and to help their employees. The attitude in management shifted toward favoring prosecution for serious offenses when there was a threat against the company's assets, production time or profits. Attitudes are shown in Figure 2, and the data by firms can be found in Figure 6.

Figure 3 is a line graph showing the relation between the dishonesty problem and fidelity bond or insurance





coverage. Eleven firms did not have bond or insurance coverage. Seven had a past theft problem; one had a problem at the time of the survey; and five firms had dishonesty losses in the past ten years caused by theft or other forms of dishonesty (see Chapter IV on case studies).

There were, of course, additional policies, controls, and techniques found in the survey sample. Several policies matched their opposite numbers on the control side while others had no companion in the security programs. The same figures in reference can be used to observe this comparison.

An explanation for the difference in policies and controls detected above could stem from a lack of understanding of the terms used, in the minds of the respondents. All firms had a security program in some form or other, but management did not identify the functioning parts of their program with policies and controls. The difference may also be explained by the gap between questions concerning firm policies and controls in the survey instruments. It is entirely possible that respondents did not recall preceding answers to the policy question when later asked about security control procedures.

Figure 2 shows twenty respondents were satisfied with their internal control policies and eighteen felt their security methods and techniques were effective. Ten stated that their security operations were adequate. However, only a few wrote security duties into the company policies and

the first of these is the fact that the system is not in a steady state. The second is that the system is not in a steady state.

### Steady State

The first of these is the fact that the system is not in a steady state.

The second is that the system is not in a steady state.

The third is that the system is not in a steady state.

The fourth is that the system is not in a steady state.

The fifth is that the system is not in a steady state.

The sixth is that the system is not in a steady state.

The seventh is that the system is not in a steady state.

The eighth is that the system is not in a steady state.

The ninth is that the system is not in a steady state.

The tenth is that the system is not in a steady state.

The eleventh is that the system is not in a steady state.

The twelfth is that the system is not in a steady state.

The thirteenth is that the system is not in a steady state.

The fourteenth is that the system is not in a steady state.

The fifteenth is that the system is not in a steady state.

The sixteenth is that the system is not in a steady state.

The seventeenth is that the system is not in a steady state.

The eighteenth is that the system is not in a steady state.

The nineteenth is that the system is not in a steady state.

The twentieth is that the system is not in a steady state.

The twenty-first is that the system is not in a steady state.

The twenty-second is that the system is not in a steady state.

The twenty-third is that the system is not in a steady state.

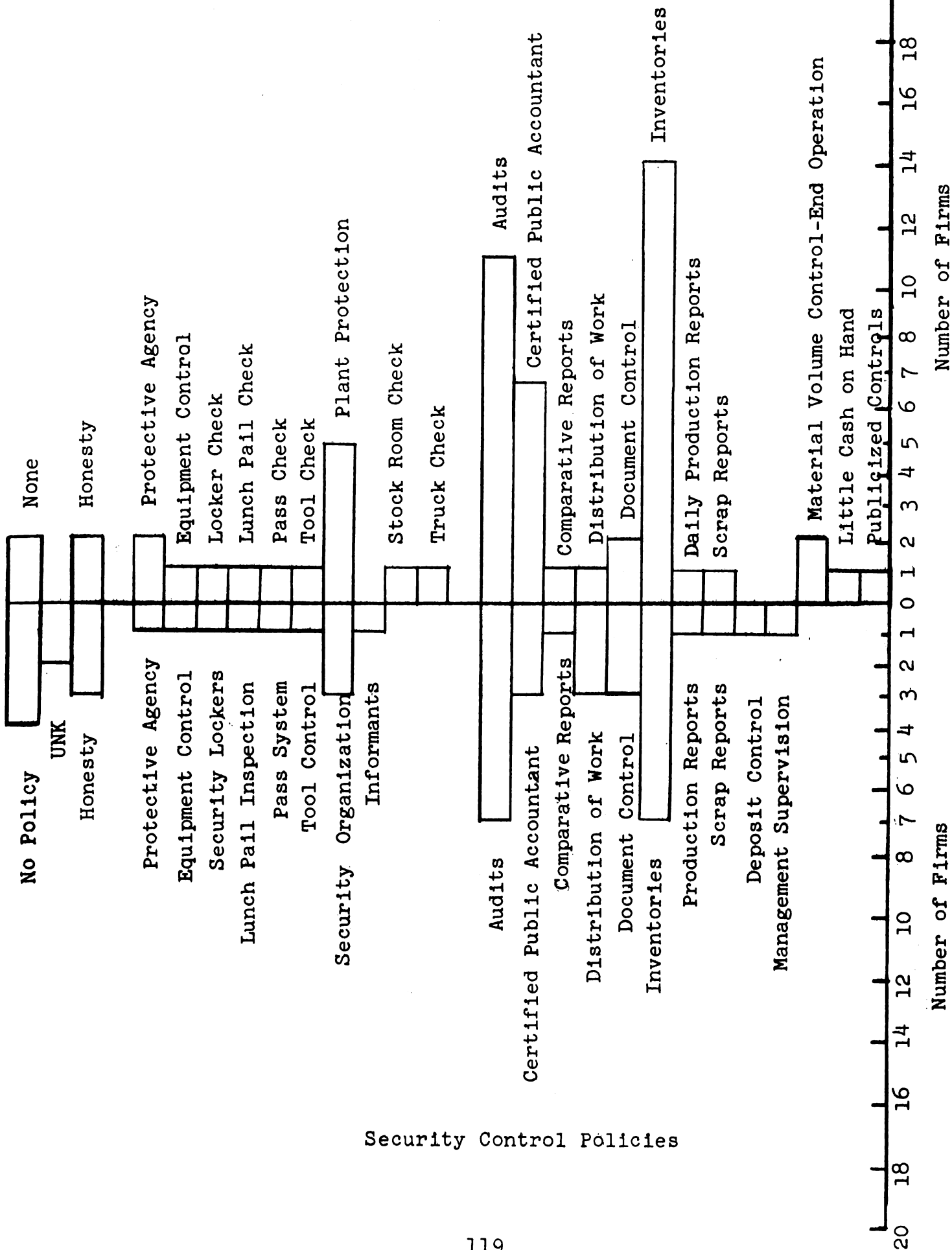
The twenty-fourth is that the system is not in a steady state.

The twenty-fifth is that the system is not in a steady state.

rules. A lack of written guidance in security regulations reflected an attitude of "all is well under existing conditions." Referring again to Figure 1, some evidence of a trusting and tolerant attitude in the "people are honest" policy is shown. All seemed satisfied with their security policies and controls by showing a tolerance toward the offender involved in minor dishonesty cases (see information about these attitudes in Figure 2).

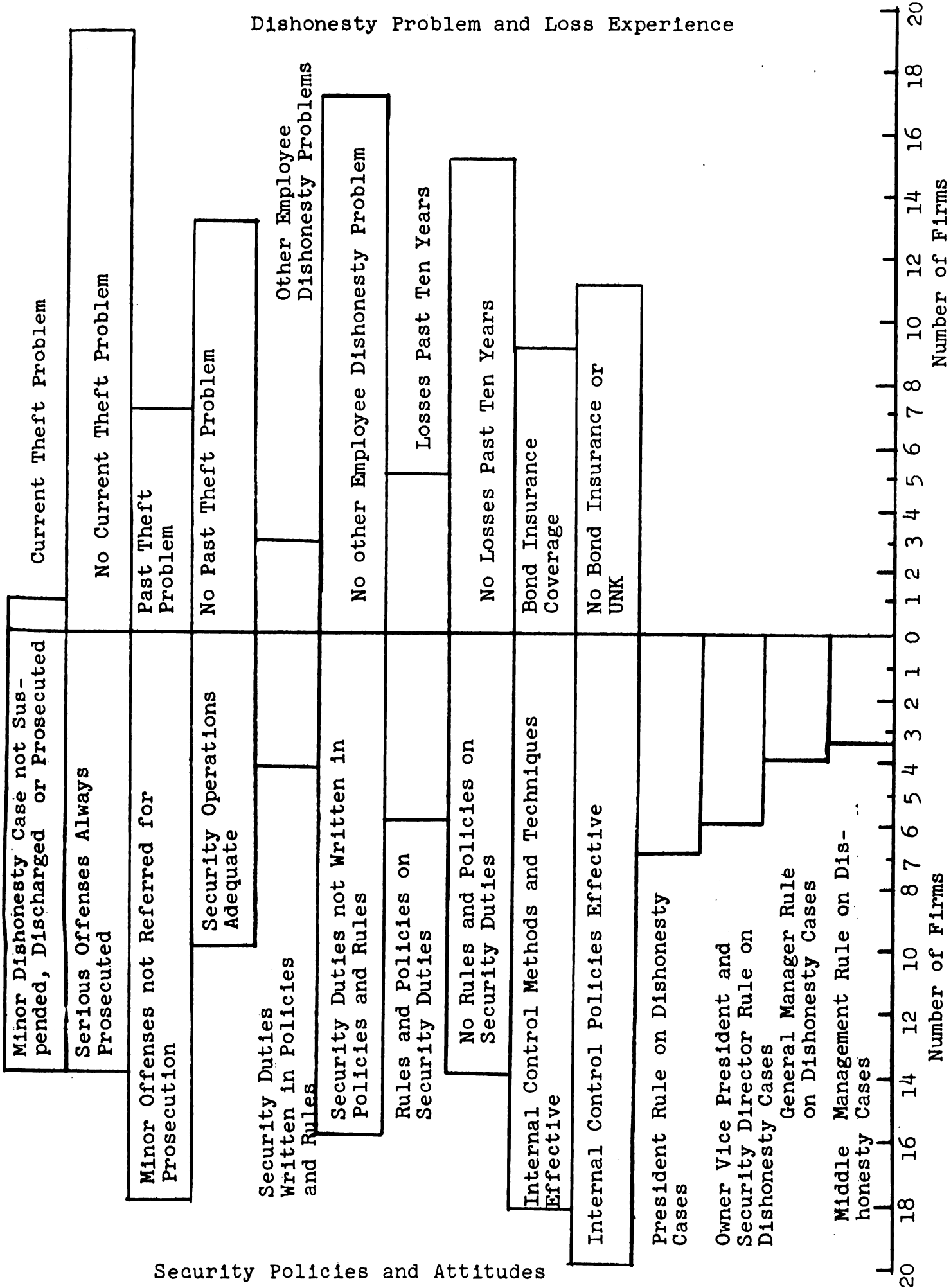
The policies, attitudes, control methods and techniques certainly were liable to error. Data reported in the figures in reference show the existence of a theft and employee dishonesty problem. Therefore, it can be said that the survey indicates that management's policies and attitudes are significant factors in controlling or minimizing employee dishonesty.

Figure 1.--Comparison Between Security Control  
Policies and Security Methods and Techniques  
in Sample Firms



**Figure 2.--Comparison Between Security Control  
Policies and Attitudes and Dishonesty Problem  
and Loss Experience in Sample Firms**

# Dishonesty Problem and Loss Experience



Security Policies and Attitudes



# Theft Employee Dishonesty, Loss Experience, Fidelity Coverage

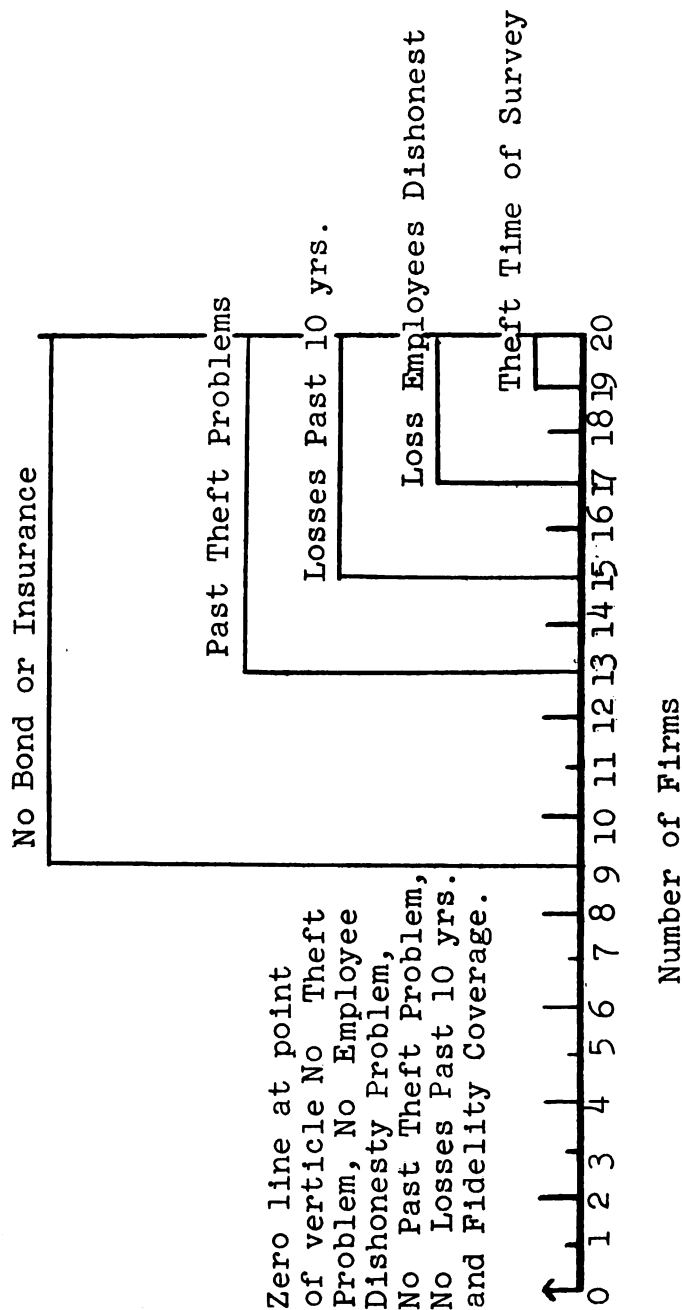


Figure 3.--Comparison Between Loss Experience and Fidelity Coverage in Sample Firms

Security Control Policies	Management Supervision	x																					
	Deposit Control	x																					
	Scrap Reports	x																					
	Production Reports	x																					
	Inventories	x	x	x	x	x										x	x	x					
	Document Control	x				x																x	
	Distribution of Work	x														x				x			
	Comparative Reports	x																					
	Certified Public Accountants	x				x														x			
	Audits	x	x	x		x										x	x	x		x			
	Informants	x																					
	Security Organization	x				x																x	
	Tool Control	x																					
	Pass System	x																					
	Lunch Pail Inspection	x																					
	Security Lockers	x																					
	Equipment Control	x																					
	American District Telegraph	x																					
	Honesty Policy											x				x				x			
	Unknown											x				x							
No Policy	x														x				x		x		
	Firm no.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20		

### Figure 4.--Security Control Policies by Firms

Security Control Methods and Techniques by Firms	Publicized Controls																			x	
	Little cash on hand																			x	
	Material Volume Control-End operations							x	x												
	Scrap Reports																			x	
	Daily Production Reports																			x	
	Inventories	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
	Document Control		x																		x
	Distribution of Work																				x
	Comparative Report																				x
	Certified Public Accountant		x	x		x	x									x			x		x
	Audits	x	x	x	x	x	x	x							x	x	x	x	x	x	
	Truck Check																				
	Stock Room Check																				
	Plant Protection				x	x					x	x									x
	Tool Check		x																		
	Pass Check																				
	Lunch Pail Check																				
	Locker Check		x																		
	Equipment Check																				
	American District Telegraph		x	x																	
	Honesty																				
None																					
	Firm No.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20

Figure 5.--Security Control Methods and Techniques by Firms

Figure 6.--Comparison Between Security Control  
Policies and Attitudes and Dishonesty Problem  
and Loss Experience by Firms

Dishonesty Problem and Loss Experience

Security Policies and Attitudes by Firms

Bond Insurance Coverage	x x x x x x x x x x
No Bond Insurance or Unknown	x x x x x x x x x x x
No Losses Past Ten Years	x x x x x x x x x x x x x
Losses Past Ten Years	x x x x x x x x x x
No Other Employee Dishonesty Problem	x x x x x x x x x x x x x x x
Other Employee Dishonesty Problem	x x x x x x x x x x x
No Past Theft Problem	x x x x x x x x x x x x x x
Past Theft Problem	x x x x x x x x x
No Current Theft Problem	x x x x x x x x x x x x x x x x x
Current Theft Problem	x
President Rule on Dishonesty Cases	x x x x x x x x
Middle Management Rule on Dishonesty Cases	x x x x x x x
General Manager Rule on Dishonesty Cases	x x x x x x x x x
Owner, Vice-President, Security Director Rule on Dishonesty Cases	x x x x x x x x x
Internal Control Policies Effective	x x x x x x x x x x x x x x x x x x x
Internal Control Methods and Techniques Effective	x x x x x x x x x x x x x x x x x x x
No Rules and Policies on Security Duties	x x x x x x x x x x x x x x x x x
Rules and Policies on Security Duties	x x x x x x x x x x x
Security Duties Not Written in Policies and Rules	x x x x x x x x x x x x x x x x x
Security Duties Written in Policies and Duties	x x x x x x x x x x
Security Operations Adequate	x x x x x x x x x x x x x
Minor Offences Not Referred for Prosecution	x x x x x x x x x x x x x x x x x x x
Serious Offences Always Prosecuted	x x x x x x x x x x x x x x x
Minor Dishonesty Cases Not Suspended, Discharged or Prosecuted	x x x x x x x x x x x x x
Firm Number	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20



## CHAPTER X

### CONCLUSIONS AND RECOMMENDATIONS

Combining internal control and physical security into a security operation to reduce theft and employee dishonesty can be called the Company Security Program. Some security exists in one form or another in every firm depending on the number of employees, size of the firm, and type of operations.

Theories of causation regarding theft and employee dishonesty and the concepts for security requirements have varied among firms. Concepts depended on management's attitudes, needs, the dishonesty problem, and loss experiences.

Since it was suspected that managements in business and industry varied in their attitudes toward theft and employee dishonesty, this study was initiated to learn more about the problem. It was hypothesized that management's policies and attitudes toward employee dishonesty were significant factors in controlling or minimizing dishonesty losses. Therefore, selected manufacturing enterprises were surveyed to test this hypothesis. Information was obtained from interview schedules utilized to collect data for analysis. On-site interviews of available management personnel from a selected sample were conducted to learn more about





the attitudes affecting security policies, control methods, and the effectiveness of the security programs.

As suspected, there were differences in the approaches to the employee dishonesty problem. Some pattern of similarity was detected in the survey sample which affected security policies and attitudes toward the problem. The conventional methods and techniques were employed, but no new security procedures were uncovered. It was apparent from the firms that had experienced a loss that tighter controls were needed and attitude changes were required in management to cope with the problem.

The survey was not entirely conclusive because of errors in methodology and the lack of a more complete study of a larger random sample in an expanded universe. The thesis, however, does provide information which can be of value. Conclusions were developed; however, additional research is recommended to test the hypothesis further.

If the problem of employee theft and dishonesty cannot be reduced, many businesses will not survive. In order to protect business profits, changes in attitudes and increased control measures will, in all probability, have to be further considered by management.

The introduction of internal control methods and physical security techniques is not a panacea for employee theft and dishonesty. It will help to minimize the problem, protect the assets of a firm from large losses, and



improve the foundations of many businesses. Unless there are changes in management's attitudes, security policies, methods and techniques, it is unlikely that there will be a reduction in the employee theft and dishonesty problem.

The area of profit protection against crime should be intensified. There is need for top management to know the problems, and become familiar with developments in security controls.

Crime, however, exists in American business today because there is a failure to recognize the effect it has on business and industry. There is a tendency to write it off as bad company publicity or embarrassment to employees. This attitude adds to the problem of theft and employee dishonesty by further presenting opportunities to steal.

The deterrent against those losses could start with management. Good security starts at the executive levels. Protection involves all properties and cash; therefore, more attention should be paid to control methods.<sup>1</sup>

Managers who have a different view toward theft are utilizing more controls to prevent narrowing profit margins, but there is still reported an increase in successful frauds and thefts with the expansion of the national economy. Aggressive firms must provide adequate security

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<sup>1</sup>Harvey Burstein, "Crime: Its Effect on American Business" (Speech given at Top Management Business Security Seminar, Michigan State University, April 16, 1963). (Tape.)



to protect their profits and prevent further decay in business foundations.

Management has the important function of assuring adequacy and feasibility of safeguarding controls. More and more loss prevention-asset protection efforts are needed. As part of each company's continuing security program, it should be the practice to inform each employee about his responsibilities for safeguarding the assets of his firm.

This is the period in history when business leaders must take a strong stand on ethics and morality. Firms need to organize to carry out an asset protection program that will gain the respect of employees, customers, and the public. Theft and employee dishonesty must show a decline in our present economy.<sup>2</sup>

The first successful move to attack the theft and employee dishonesty problem might well be made by responsible leaders in business management. It is time to change their attitude of indifference about employee dishonesty. Since top management is mainly concerned about cost reduction, supervisory failures, and productivity, they should consider the reduction in theft losses to gain a greater potential toward increased profits.

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<sup>2</sup>Jack D. Penland, "Malefactors Who Prey on the Company from Outside" (Michigan: Speech given at Michigan State University Security Seminar, April 16, 1963), pp. 1-14. (Mimeographed.)



Companies that are alert can develop methods to thwart internal thefts. When management is complacent about this and their controls are weak, losses occur. Dishonesty breeds on poor business practices, causes higher costs to the consumer, lower purchasing power, and bankruptcy for many companies.

One of the main things today concerning the problem of business crime is for management to recognize that some employees are subject to human frailties including the inability to resist temptation. Management's protection against employee temptation is to develop a consciousness of employee responsibility toward company property and financial assets. By helping the employees in this way, he may be kept out of situations of temptation.<sup>3</sup>

#### Recommendations for Security Control

Security in any organization requires constant review and assessment to evaluate its effectiveness. As stated, each firm has different needs depending on the type of business; therefore, it is not too practical to compare security programs between different organizations. Initially the financial risk of loss and the nature of the hazard indicate the kind and degree of security needed. Considerations

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<sup>3</sup>S. J. Curtis, "Focus on the Future" (Speech given at Security Seminar, Michigan State University, East Lansing, April 18, 1963), pp. 1-19. (Mimeographed.)





for a security operation should include both internal control methods and physical security techniques.

Places, areas, activities, and operations vulnerable to dishonesty losses have to be assessed by management. It is recommended that the location of a loss risk be determined by the principles of the firm, and that it be made at the right level. Top management's opinion regarding the strong and weak points of a firm should be the basis for analyzing the problem.

A rule of thumb for determining a loss risk in any firm could be figured on a scale of criticality in rank priority for assessment purposes, such as:

- |             |                               |
|-------------|-------------------------------|
| A. Serious  | 1. Permanent--out of business |
| B. Moderate | 2. Temporary                  |
| C. Slight   | 3. Undetermined <sup>4</sup>  |

Corrective measures against a potential dishonesty loss could then be considered on this scale and provide a point of departure for action on a security program. An A-1 assessment (serious-permanent) would require immediate corrective measures and would be ranked higher in priority for corrective action over a C-2 assessment (slight-temporary).

After the proposed security program has been evaluated, based on the above assessment, the security controls should be instituted at the lowest cost which is consistent

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<sup>4</sup>Timothy Walsh, "How Do You Evaluate a Company's Security?" (Speech given at Security Seminar, Michigan State University, East Lansing, April 17, 1963). (Tape.)



with the objectives of the enterprise.<sup>5</sup> These controls are provided to prevent the disorganization which breeds the dishonesty. The security program approved by management can then be implemented.

A sustained implementation of internal controls within a security operation can be accomplished by a deliberate error program, a series of check lists, a formal employee training and re-training program, and undercover investigation.

Controls can be checked on by a system of program supervision, which requires a supervisor to go through a prescribed series of inspections to make certain that all operations are being executed in accordance with prescribed procedures.

Another method is operational auditing. This is a methodical examination designed (1) to find deviations from established standards or practices, (2) to find loopholes in controls, (3) to consider means of improving the efficiency of operations, and (4) to determine the current adequacy of the procedures themselves. It could include audits on several functions of internal controls and physical security. For each function a written supervisory operational audit must be prepared, so an auditor can be led systematically through an operation to determine conformity to

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<sup>5</sup>Ibid.

## • Die Bedeutung der Sprache

Die Sprache ist ein zentraler Bestandteil der menschlichen Kultur und dient der Kommunikation und dem Ausdruck von Gedanken und Emotionen. Sie ist ein Werkzeug, um Informationen zu übertragen und Beziehungen zu knüpfen.

### • Die Rolle der Sprache in der Gesellschaft

Die Sprache spielt eine entscheidende Rolle in der sozialen Interaktion und der Identifizierung von Gruppen. Sie ermöglicht es Menschen, sich zu organisieren, gemeinsame Werte zu etablieren und sich an gesellschaftliche Normen zu orientieren. Durch die Sprache können Konflikte gelöst und Kooperation gefördert werden.

### • Die Entwicklung der Sprache

Die Sprache hat sich im Laufe der Evolution entwickelt, um die komplexen Bedürfnisse des Menschen zu erfüllen. Von einfachen Lauten und Gesten über die Entwicklung von Wörtern und Sätzen bis hin zur komplexen Grammatik und Syntax. Die Sprache ist ein dynamisches System, das sich ständig weiterentwickelt und an neue Situationen anpasst.

### • Die Sprache als kulturelles Erbe

Die Sprache ist ein zentraler Bestandteil der menschlichen Kultur und trägt zur Identifizierung von Gruppen bei. Sie ist ein Vermittler zwischen Vergangenheit und Zukunft, da sie Traditionen und Werte weiterträgt. Die Sprache ist ein kulturelles Erbe, das geschützt und gepflegt werden muss.

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.....

...

practice or deviation from established procedures (see Figure 7 for sample operational audit).

These audits can be prepared to suit the design of each operation in a firm and issued in duplicate to department heads. The receiving department head is issued his audit form; the shipping department head is issued his audit and the accounts receivable head receives his audit, etc. The duplicate of the operational audit, after it is filled out, is retained by each department head as a permanent record of his performance. The original is sent to top management for summarization, review, and evaluation of the company's operations.<sup>6</sup>

Each firm should also include, as part of their Security Program, a Crime Prevention Survey Program to develop action to reduce or minimize certain business offenses. It is another measure of implementing the security policies of the company. All personnel in a firm should have a direct participation in crime prevention.

Theft or employee dishonesty is repressed through the application of such techniques as physical security, crime prevention surveys, and the observation of persons and places considered crime-producing. If a theft is detected, control can be instituted by prompt investigation,

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<sup>6</sup>Saul D. Astor, "Implementation of Procedures: Methods and Controls" (Speech given at Security Seminar, Michigan State University, East Lansing, April 17, 1963), pp. 1-15. (Mimeographed.)



apprehension, and prosecution of offenders.

The crime prevention survey program is implemented by an overall Company Plan. It requires the development of supplementary plans by all levels of management and supervision for determining courses of action that will be conducive to the quickest achievement of the company's objectives.

Good programming requires the collection and evaluation of detailed information on:

Exact types of offenses being committed; personnel departments involved

Methods of operation of offenders

Plans vulnerable to dishonesty

Administration and physical security techniques that will prevent offenses

Coordination with enforcement agencies

Utilization of sources of information

State of morale and discipline in the company

Known or suspected trouble spots

Special personnel problems

Agencies available for assistance in the reduction of crime and offense

Security personnel should be utilized to conduct physical security surveys of warehouses and other facilities in which company property is stored. The information for this survey will help to determine the need for required physical security, guard force protection, and administrative procedures.

An important aspect of crime prevention is the elimination of factors that contribute to the commission of crimes and offenses. Complaints and grievances of employees may provide important information regarding the presence and nature of such factors.

The knowledge that offenders will be apprehended helps to maintain a law-abiding attitude among employees. Surveillance may be used to prevent dishonesty. Guard forces should apply the surveillance technique to deter crime.<sup>7</sup>

Security directors and management should be directly concerned with the protection of property against pilferage and larceny. This protection can only be accomplished by the combined efforts of all personnel in the company along with a well organized security operation.

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<sup>7</sup>"Crime Prevention," Department of the Army Technical Bulletin 19 (Washington, D.C.: U.S. Government Printing Office, 1954), pp. 1-10.



Figure 7

Operational Audit Samples<sup>8</sup>

## I. SHIPPING AUDIT--SAMPLE PROGRAM

Read Below and Fill in Here----

Capital Letters and  
\*Asterisk Denote  
Desirable Condition

S U

1. NO DRIVERS OR CUSTOMERS PERMITTED BEYOND DOCK.  
I am aware that it is company policy to prohibit drivers and customers from entering the order-selection area and the shipping consolidation area (a). There is a prominent sign on the shipping dock to that effect (b). The following employees (c-names) were reminded of this policy on (d-date).

1. (a) YES\*\_\_\_NO\_\_\_  
(b) YES\*\_\_\_NO\_\_\_  
(c) \_\_\_\_\_  
(d) \_\_\_\_\_(date)

2. COMPLETED ORDERS SPOT-CHECKED BY SUPERVISOR.  
Each day, I spot-check at least (a) number of completed orders and sign the order copies of those I check (b). Today I checked six orders and I found the following discrepancies:

2. (a) None\_\_\_\_\_  
A few\_\_\_\_\_  
SIX\*\_\_\_\_\_  
(b) I SIGN THE  
CHECKED ORDERS\*

Order #    Order Called For:    I Found:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

I do not sign  
the checked  
orders\_\_\_\_\_

3. PRODUCTIVITY OF ORDERS SELECT-ORS IS CHECKED.  
We expect an order selector to pick an average of (a) lines per hour. A daily record of productivity is kept by me for each order selector (b). Today we used a total of (c) number of man-hours to pick (d) number of lines. Therefore, we had an average of (e) lines per man-hour. My fastest man is (f-name) who filled (g) number of lines per hour today. My slowest man is (h-name) who filled (i) number of lines per hour today.

3. (a) Unknown\_\_\_\_\_  
THIRTY-EIGHT\*  
(b) YES\*\_\_\_\_\_  
No\_\_\_\_\_  
(c) \_\_\_\_\_  
(d) \_\_\_\_\_  
(e) \_\_\_\_\_  
(f) \_\_\_\_\_  
(g) \_\_\_\_\_  
(h) \_\_\_\_\_  
(i) \_\_\_\_\_

<sup>8</sup>Astor, op. cit., pp. 16-19.



4. RETURNS CHECKED AGAINST CREDIT VOUCHERS.

When drivers bring in returns, the returned products are individually checked by (a) against their credit vouchers. The checker signs the vouchers (b). Returned products are (c). In my opinion, drivers (d) easily falsify credits or take returned products from barrels and get credit for them a second time.

4. (a) The drivers themselves

AUTHORIZED CHECKERS  
NAMED\* \_\_\_\_\_

(b) YES\* \_\_\_\_\_ No \_\_\_\_\_

(c) Left on the platform \_\_\_\_\_

PLACED IN BARRELS\* \_\_\_\_\_

(d) Could \_\_\_\_\_  
COULD NOT \_\_\_\_\_

5. SUGGESTIONS FOR IMPROVEMENT. I have the following suggestions for improving shipping operations in my plant. Other than the following, I think the shipping procedures are excellent (a):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. (a) Present procedure is excellent

\_\_\_\_\_  
Procedure needs revision as I suggested

6. SCORE AND ACTION. There were (a-number) of frames preceding this. Of these, I have marked (b-number) satisfactory and (c-number) unsatisfactory. I will take action on the unsatisfactory conditions, (d) and have them brought into line by (e-date). (If answer to (d) is negative, explain below:)

6. (a) No. of frames: \_\_\_\_\_

(b) \_\_\_\_\_ Sat.

(c) \_\_\_\_\_ Unsat.

(d) WILL\* \_\_\_\_\_  
Will not \_\_\_\_\_

(e) \_\_\_\_\_ (date)

I cannot correct the following conditions because of the reasons I offer below:

Reason for not making correction  
Frame No. Letter

\_\_\_\_\_  
\_\_\_\_\_

Date \_\_\_\_\_ Signature \_\_\_\_\_

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• The first step in the process of creating a new product is to identify a market need. This is often done through market research, which involves gathering information about potential customers and their needs. Once a market need is identified, the next step is to develop a concept for a product that meets that need. This is often done through brainstorming and prototyping. Once a concept is developed, the next step is to create a business plan for the product. This plan should outline the costs of production, the pricing strategy, and the marketing strategy. Once a business plan is created, the next step is to secure funding for the product. This can be done through a variety of methods, including crowdfunding, venture capital, and bank loans. Once funding is secured, the next step is to manufacture the product. This is often done through a contract manufacturer. Once the product is manufactured, the next step is to distribute it to customers. This can be done through a variety of methods, including direct sales, retail, and online sales. Finally, the last step in the process is to monitor the product's performance in the market. This is often done through sales data and customer feedback. If the product is not performing well, the company may need to make changes to the product or the marketing strategy.

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• The fifth step in the process of creating a new product is to manufacture the product. This is often done through a contract manufacturer. Once the product is manufactured, the next step is to distribute it to customers. This can be done through a variety of methods, including direct sales, retail, and online sales. Finally, the last step in the process is to monitor the product's performance in the market. This is often done through sales data and customer feedback. If the product is not performing well, the company may need to make changes to the product or the marketing strategy.

• The sixth step in the process of creating a new product is to distribute it to customers. This can be done through a variety of methods, including direct sales, retail, and online sales. Finally, the last step in the process is to monitor the product's performance in the market. This is often done through sales data and customer feedback. If the product is not performing well, the company may need to make changes to the product or the marketing strategy.

• The seventh step in the process of creating a new product is to monitor the product's performance in the market. This is often done through sales data and customer feedback. If the product is not performing well, the company may need to make changes to the product or the marketing strategy.

• The eighth step in the process of creating a new product is to make changes to the product or the marketing strategy. This is often done through market research and customer feedback. Once changes are made, the next step is to monitor the product's performance in the market. This is often done through sales data and customer feedback. If the product is not performing well, the company may need to make changes to the product or the marketing strategy.

• The ninth step in the process of creating a new product is to make changes to the product or the marketing strategy. This is often done through market research and customer feedback. Once changes are made, the next step is to monitor the product's performance in the market. This is often done through sales data and customer feedback. If the product is not performing well, the company may need to make changes to the product or the marketing strategy.

• The tenth step in the process of creating a new product is to make changes to the product or the marketing strategy. This is often done through market research and customer feedback. Once changes are made, the next step is to monitor the product's performance in the market. This is often done through sales data and customer feedback. If the product is not performing well, the company may need to make changes to the product or the marketing strategy.

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## APPENDIX A

### Introductory Statement: (Memorize)

I am a graduate student from Michigan State University and am conducting a field survey for data on a thesis pertaining to losses resulting from defalcations (theft, etc.), in manufacturing enterprises. I am talking to personnel at the management level in this area to learn policies and control techniques being used to reduce dishonesty losses. It is felt that their attitudes toward the problem are a significant factor in minimizing employee dishonesty. I would like to spend a little time with you today to find out about the internal control methods in your security operation. You can be assured that anything said during our conversation identifying you or your firm will be kept strictly confidential. The information obtained may help to understand better this growing problem or provide others with suggestions for internal controls.

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Area \_\_\_\_\_ Number \_\_\_\_\_

Interview completed \_\_\_\_\_

Interview not completed \_\_\_\_\_ Reason \_\_\_\_\_

Remarks:

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1. The first part of the document discusses the importance of maintaining accurate records of all transactions and activities. It emphasizes that proper record-keeping is essential for transparency and accountability, particularly in financial matters. The text notes that without reliable records, it is difficult to track progress, identify issues, and make informed decisions.

2. The second part of the document outlines the specific steps and procedures for implementing a robust record-keeping system. This includes identifying the types of records that need to be maintained, determining the frequency of updates, and establishing clear roles and responsibilities for data entry and review. The document also highlights the importance of using standardized formats and templates to ensure consistency across all records.

3. The third part of the document addresses the challenges commonly associated with record-keeping, such as data loss, corruption, and unauthorized access. It provides practical advice on how to mitigate these risks, including the use of secure storage solutions, regular backups, and strict access controls. The text also discusses the importance of training staff on proper record-keeping practices and the consequences of non-compliance.

4. The fourth part of the document discusses the benefits of a well-maintained record-keeping system. It notes that accurate records can improve decision-making, enhance communication, and provide a clear audit trail. The text also mentions that proper record-keeping can help in identifying trends, spotting anomalies, and ensuring compliance with relevant regulations and standards.

5. The fifth part of the document provides a summary of the key points discussed and offers final recommendations. It reiterates the importance of a proactive approach to record-keeping and encourages the implementation of the outlined steps and procedures. The document concludes by stating that a strong record-keeping system is a fundamental component of any successful organization.

## Pre-interview Schedule

1. What is the item produced by your firm? \_\_\_\_\_
2. How long has your firm been in business at the present location? \_\_\_\_\_ years \_\_\_\_\_ months
3. How many people (total) does this firm employ? \_\_\_\_\_
4. Have you had any special requirements for establishing internal controls to minimize dishonesty losses at your firm? \_\_\_\_ Yes \_\_\_\_ No
5. How long have you been employed as a member of this firm? \_\_\_\_\_ years \_\_\_\_\_ months
6. What is the title of your position? \_\_\_\_\_
7. How many persons are assigned to the security operation in your firm? \_\_\_\_ Full-time \_\_\_\_ Part-time
8. Are these employees assigned to special units in your security organization? \_\_\_\_ Yes \_\_\_\_ No
9. If yes to question number 8, what units are they assigned to?  
\_\_\_\_\_  
\_\_\_\_\_
10. If no to question number 8, what units are they assigned to?  
\_\_\_\_\_  
\_\_\_\_\_
11. Is this a single manufacturing firm or a branch of a larger organization? \_\_\_\_ single firm \_\_\_\_ branch
12. How long have you been employed at your present position? \_\_\_\_\_ years \_\_\_\_\_ months

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## APPENDIX B

### Interview Schedule

#### I. Policies and Attitudes:

1. What are the internal control policies in effect in this firm to reduce dishonesty losses?

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2. In your opinion, are the policies effective for the purpose intended? \_\_\_\_Yes \_\_\_\_No Reasons:

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3. In your opinion, what causes contribute to employee dishonesty or theft in manufacturing enterprises? (Please rank the causes in order of importance.)

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

4. What can your department do to control employees who, in violation of the law or company policy, contribute to dishonesty losses? (a) that they are doing now

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(b) that they are not doing now

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5. What can management do to control or minimize dishonesty losses?

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1. The first part of the document discusses the importance of maintaining accurate records of all transactions and the role of the accounting department in ensuring the integrity of the financial statements.

2. It also highlights the need for regular audits and the importance of having a clear understanding of the company's financial position at all times.

3. The second part of the document focuses on the importance of budgeting and forecasting, and how these tools can be used to manage the company's resources effectively.

4. It also discusses the importance of having a clear understanding of the company's cash flow and the need to maintain a healthy balance sheet.

5. The third part of the document discusses the importance of having a clear understanding of the company's tax obligations and the need to consult with a tax professional to ensure compliance.

6. It also discusses the importance of having a clear understanding of the company's legal obligations and the need to consult with a legal professional to ensure compliance.

7. The fourth part of the document discusses the importance of having a clear understanding of the company's financial goals and the need to develop a strategic plan to achieve them.

8. It also discusses the importance of having a clear understanding of the company's competitive position and the need to develop a marketing strategy to gain a competitive edge.

9. The fifth part of the document discusses the importance of having a clear understanding of the company's financial risks and the need to develop a risk management strategy to mitigate them.

10. It also discusses the importance of having a clear understanding of the company's financial opportunities and the need to develop a strategy to capitalize on them.



6. Are your security operation duties set forth in your company rules and policies? ☐ Yes ☐ No. If yes, are these rules and policies written? ☐ Yes ☐ No. If yes, obtain a copy when possible.
7. Are there any offenses against the company rules or policies that you feel should always be prosecuted in an appropriate court? ☐ Yes ☐ No
8. What are these offenses? \_\_\_\_\_  
\_\_\_\_\_
9. What reason do you have for always referring these offenses to court for prosecution? \_\_\_\_\_  
\_\_\_\_\_
10. Are there any offenses which you feel should never be referred to court for prosecution? ☐ Yes ☐ No
11. What are these offenses? \_\_\_\_\_  
\_\_\_\_\_
12. What reason do you have for not referring these offenses into court for prosecution? \_\_\_\_\_  
\_\_\_\_\_
13. Who makes the final decision concerning the disposition of an employee dishonesty case? \_\_\_\_\_  
\_\_\_\_\_
14. Are there some types of dishonesty cases in which the employee is neither suspended, discharged, nor prosecuted? ☐ Yes ☐ No
15. What type of cases are these? \_\_\_\_\_  
\_\_\_\_\_
16. What reason do you have for taking no action on these cases? \_\_\_\_\_  
\_\_\_\_\_
17. How do you think the other departments in this company feel about employee dishonesty and theft? \_\_\_\_\_  
\_\_\_\_\_



18. How do you feel about the security organization in this firm which is concerned about the dishonesty problem? \_\_\_\_\_
- \_\_\_\_\_

II. Control Methods and Techniques:

19. What type of places in your firm are vulnerable to the problem of theft or employee dishonesty? \_\_\_\_\_
- \_\_\_\_\_
20. What type of operation, in your firm, helps prevent theft or employee dishonesty? \_\_\_\_\_
- \_\_\_\_\_
21. What type activities in your firm contribute to the problem of employee dishonesty? \_\_\_\_\_
- \_\_\_\_\_
22. What type of activities in your firm help prevent dishonesty losses? \_\_\_\_\_
- \_\_\_\_\_
23. What are your duties as an official in this firm regarding the security operations? \_\_\_\_\_
- \_\_\_\_\_
24. What are your other duties? (For persons assigned to part-time security operation duties). \_\_\_\_\_
- \_\_\_\_\_
25. How is your work day spent? Place a one (1) by the activity which occupies most of your time, two (2) by the activity which takes the next greatest portion of your time, and continue this manner through the list of activities below.

\_\_\_\_ Administrative duties on internal controls

\_\_\_\_ Observation of places that contribute to dishonesty losses

\_\_\_ Investigation of dishonesty cases referred to you for disposition

\_\_\_ Report writing

\_\_\_ Contacts with departments, referrals, and follow-ups for employees in need of further supervision

\_\_\_ Inspection of places or operations vulnerable to dishonesty losses

\_\_\_ Other activities; what are these? \_\_\_\_\_

26. How do you get your dishonesty cases? Place a one (1) by the most frequent source of case handled by you, a two (2) by the next most frequent source, and continue in this manner through your least frequent case source.

\_\_\_ From Plant Protection Personnel

\_\_\_ From Finance Department Personnel

\_\_\_ From Shop Foremen

\_\_\_ From other supervisory personnel

\_\_\_ From your Supervisors

\_\_\_ From employees

\_\_\_ Other; What are these other sources? \_\_\_\_\_

27. What are some of the examples of the control methods and techniques that exist in this firm to prevent dishonesty losses? (Ask for a comment on the use of the polygraph.) \_\_\_\_\_

28. How effective are these methods and techniques? \_\_\_\_\_

29. Do you have a theft problem in this firm? \_\_\_ Yes \_\_\_ No



30. If yes, what are these problems? \_\_\_\_\_  
 \_\_\_\_\_
31. If no, has there ever been a theft problem in the past? \_\_\_\_\_  
 \_\_\_\_\_
32. If there has been a problem in the past, what was done to control it at this time? \_\_\_\_\_  
 \_\_\_\_\_
33. Do you have other employee dishonesty problems in your firm? \_\_\_\_Yes \_\_\_\_No
34. Repeat questions 30-32.

### III. Loss Experiences:

35. What were the losses in 1962 in this firm, to the nearest dollar, caused by?
- \$\_\_\_\_\_Theft  
 \_\_\_\_\_Embezzlement  
 \_\_\_\_\_Misappropriation  
 \_\_\_\_\_Fraud  
 \_\_\_\_\_Manipulation of records  
 \_\_\_\_\_Inventory shortages caused by dishonesty  
 \_\_\_\_\_Others; specify. \_\_\_\_\_  
 \_\_\_\_\_
36. What were the total annual dishonesty losses in this firm for the past ten years, to the nearest dollar figure?
- \$\_\_\_\_\_1961  
 \_\_\_\_\_1960  
 \_\_\_\_\_1959  
 \_\_\_\_\_1958

\_\_\_\_\_ 1957

\_\_\_\_\_ 1956

\_\_\_\_\_ 1955

\_\_\_\_\_ 1954

\_\_\_\_\_ 1953

\_\_\_\_\_ 1952

37. What is the amount of fidelity bond or honesty insurance carried by your firm?

\$ \_\_\_\_\_ Bond

\$ \_\_\_\_\_ Self-insured

38. Obtain copies of any policies, reports, investigations or other material used in this firm's internal control operation, if possible.

Thank you.

1. The first part of the document is a letter from the President of the United States to the Congress, dated January 1, 1861. It is a very important document, as it sets out the President's policy for the new year. The President states that he is pleased to see the Congress assembled, and that he is confident that the country is in a state of peace and prosperity. He also mentions that he has received a letter from the President of Mexico, and that he is pleased to hear that the two countries are on friendly terms. The President then goes on to discuss the state of the Union, and mentions that he has received a report from the Secretary of the Interior, which states that the country is in a state of peace and prosperity. The President then goes on to discuss the state of the Union, and mentions that he has received a report from the Secretary of the Interior, which states that the country is in a state of peace and prosperity.



## APPENDIX C

### Introductory Statement: (Memorize)

I am a graduate student from Michigan State University and am conducting a field survey for data on a thesis pertaining to losses resulting from defalcations (theft, etc.), in manufacturing enterprises. I am talking to personnel at the management level in this area to learn policies and control techniques being used to reduce dishonesty losses. It is felt that their attitudes toward the problem are a significant factor in minimizing employee dishonesty. I would like to spend a little time with you today to find out about the internal control methods in your security operation. You can be assured that anything said during our conversation identifying you or your firm will be kept strictly confidential. The information obtained may help to better understand this growing problem or provide others with suggestions for internal controls.

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Area Rochester, Mich.

Number \_\_\_\_\_

Interview completed \_\_\_\_\_

Interview not completed 4-9-63 Reason Production Manager  
too busy; Production  
Engineer too busy

4-16-63--Phoned for an appointment with personnel manager, but could not set an appointment with him. Made two calls on this date.

### Remarks:

Mr. Valenia, Production Engineer, stated he was too busy to be interviewed today or tomorrow, and other officials in management were busy or in meetings. He said this was their central office, and they were very busy. Appearance was made without an appointment. Valenia did not seem interested in thesis topic, the fact that this visit pertained to a field survey, and the information was needed for a thesis to be completed prior to graduation in June.

APPENDIX D

Personnel Manager  
Gemmer Manufacturing Company  
6400 Mt. Elliott Avenue  
Detroit, Michigan

April 15, 1963

Dear Sir:

One of the important problems confronting management in business and industry is the increase in losses caused by employee dishonesty. A review of the literature indicates much has been said and written about this subject. Studies have been made and records kept on employee malpractices, but still the problem exists today.

A survey is being conducted at the Graduate School, Michigan State University, from a carefully chosen stratified sample of manufacturing enterprises. It is hoped that certain facts may be learned from personal interviews to assist in understanding the internal controls required to minimize these losses.

All information received will be confidential and no companies or personnel will be identified.

Since your firm was carefully selected for this survey, it would be appreciated if you would arrange an appointment for me to discuss your views on dishonesty losses. I will be in your area April 24, 25, and 26, 1963. The data obtained from your firm may help reduce employee dishonesty exposure.

Please indicate the time and date convenient for an interview. A stamped, self-addressed envelope is enclosed for your reply.

Thank you for your attention on this matter.

Respectfully yours,

Eugene M. Freeman  
Lt. Col. U.S. Army (Ret.)

Sorry we cannot give you the information you request as our plant has discontinued operations here in Detroit as of October 1, 1961.



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