

RESEARCH THROUGH THE LEGAL INFORMATION INSTITUTE

Embezzlement:

In most States, embezzlement is defined as theft/larceny of assets (money or property) by a person in a position of trust or responsibility over those assets. Embezzlement typically occurs in the employment and corporate settings.

18 U.S. Code § 656 - Theft, embezzlement, or misapplication by bank officer or employee

§ 656.

Theft, embezzlement, or misapplication by bank officer or employee

Whoever, being an officer, director, agent or [employee](#) of, or connected in any capacity with any Federal Reserve bank, [member bank](#), [depository institution holding company](#), national bank, insured bank, branch or agency of a foreign bank, or organization operating under section 25 or section 25(a) [\[1\]](#) of the Federal Reserve Act, or a receiver of a national bank, [insured bank](#), branch, agency, or organization or any agent or employee of the receiver, or a Federal Reserve Agent, or an agent or employee of a Federal Reserve Agent or of the Board of Governors of the Federal Reserve System, embezzles, abstracts, purloins or willfully misapplies any of the moneys, funds or credits of such bank, branch, agency, or organization or holding company or any moneys, funds, assets or securities intrusted to the custody or care of such bank, branch, agency, or organization, or holding company or to the custody or care of any such agent, officer, director, employee or receiver, shall be fined not more than \$1,000,000 or imprisoned not more than 30 years, or

both; but if the amount embezzled, abstracted, purloined or misapplied does not exceed \$1,000, he shall be fined under this title or imprisoned not more than one year, or both.

As used in this section, the term “national bank” is synonymous with “[national banking association](#)”; “member bank” means and includes any national bank, state bank, or bank and trust company which has become a member of one of the Federal Reserve banks; “insured bank” includes any bank, banking association, trust company, savings bank, or other banking institution, the deposits of which are insured by the Federal Deposit Insurance Corporation; and the term “[branch or agency of a foreign bank](#)” means a branch or agency described in [section 20\(9\) of this title](#). For purposes of this section, the term “depository institution holding company” has the meaning given such term in section 3 of the Federal Deposit Insurance Act.

Methods of embezzlement

Embezzlement sometimes involves falsification of records in order to conceal the activity. Embezzlers commonly secrete relatively small amounts repeatedly, in a systematic and/or methodical manner, over a long period of time, although some embezzlers secrete one large sum at once. Some very successful embezzlement schemes have continued for many years before being detected due to the skill of the embezzler in concealing the nature of the transactions or their skill in gaining the trust and confidence of investors or clients, who are then reluctant to "test" the embezzler's trustworthiness by forcing a withdrawal of funds.

Embezzling should not be confused with skimming, which is under-reporting [income](#) and pocketing the difference. For example, in 2005, several managers of the service provider [Aramark](#) were found to be under-reporting profits from a string of [vending machine](#)

locations in the eastern United States. While the amount stolen from each machine was relatively small, the total amount taken from many machines over a length of time was very large. A smart technique employed by many small-time embezzlers can be covered by falsifying the records. (Example, by removing a small amount of money and falsifying the record the register would be technically correct, while the manager would remove the profit and leave the float in, this method would effectively make the register short for the next user and throw the blame onto them)

Another method is to create a false vendor account and supply false [bills](#) to the company being embezzled so that the checks that are cut appear completely legitimate. Yet another method is to create phantom employees, who are then paid with payroll checks.

The latter two methods should be uncovered by routine audits, but often aren't if the audit is not sufficiently in-depth, because the paperwork appears to be in order. A publicly traded company must change auditors and audit companies every five years. The first method is easier to detect if all transactions are by cheque or other instrument, but if many transactions are in cash, it is much more difficult to identify. Employers have developed a number of strategies to deal with this problem. In fact, [cash registers](#) were invented just for this reason.

Some of the most complex (and potentially most lucrative) forms of embezzlement involve [Ponzi-like](#) financial schemes where high returns to early investors are paid out of funds received from later investors duped into believing they are themselves receiving entry into a high-return investment scheme. The [Madoff investment scandal](#) is an example of this kind of high-level embezzlement scheme, where it is alleged that \$65 billion was siphoned off from gullible investors and financial institutions.

