



What Is Embezzlement?

When Trusted People Steal Other People's Money

Stealing from the Inside

From bookkeepers to highly paid corporate executives, people have been known to solve their personal financial problems by helping themselves to other people's money. Even churches, charities, and other institutions devoted to worthy causes are not immune. When someone entrusted with managing money decides to divert it for personal use, the result may be a crime known as *embezzlement*.

Unlike the burglar who breaks into a building or the thief who steals a stranger's wallet, the embezzler usually begins with legitimate access to the property being stolen. The offender may be an accountant, office manager, bank employee, corporate executive, or government official. In many cases, the person has earned the confidence of an employer or organization over years of faithful service.

That relationship of trust is what makes embezzlement particularly damaging. Besides the financial loss, victims often discover that someone they respected and depended upon has been systematically deceiving them.

What Makes Embezzlement Different from Theft?

Embezzlement is generally defined as the fraudulent appropriation of money or property by someone to whom it has been entrusted. The important distinction is that the offender originally possessed or controlled the property lawfully but subsequently converted it to an unauthorized use.

Consider a bookkeeper responsible for paying a company's bills. The employer authorizes the employee to write checks to legitimate vendors. If the bookkeeper instead writes checks to a fictitious company and deposits the money into a personal account, that conduct may constitute embezzlement.

The same principle applies to an employee who diverts customer payments, a financial adviser who misuses clients' investments, or a public official who transfers government funds into a personal account. The property need not be cash. Securities, merchandise, equipment, and other valuable assets may also be involved.

Although embezzlement is a form of theft, the precise legal definitions differ among jurisdictions. Some states treat it as a separate offense, while others include it within broader theft statutes. In either case, prosecutors generally must establish that the defendant knowingly or fraudulently misappropriated property entrusted to their care.

How Embezzlement Schemes Work

Embezzlement can be surprisingly simple. An employee with access to company funds may begin by taking a relatively small amount, intending to replace it before anyone notices. When the shortage goes undetected, the temptation to repeat the theft may become irresistible.

Other schemes are more elaborate. Employees may create fictitious vendors, submit fraudulent invoices, manipulate payroll records, issue unauthorized refunds, or transfer funds between accounts to conceal shortages. Some alter financial statements or destroy records to prevent supervisors and auditors from discovering discrepancies.

One common technique involves *lapping*, in which money received from one customer is stolen and a later customer's payment is used to cover the earlier shortage. The process continues as additional payments arrive, creating an accounting trail that becomes increasingly difficult to untangle.

Modern electronic banking has created additional opportunities for financial misconduct. Someone with access to online accounts may transfer money electronically, alter payment instructions, or manipulate computerized accounting records. Although technology has improved financial oversight, it has also provided new methods for concealing unauthorized transactions.

The Bookkeeper Who Bought a Stable of Racehorses

One of the most remarkable American embezzlement cases involved Rita Crundwell, the longtime comptroller of Dixon, Illinois, a relatively small city with a modest municipal budget.

Crundwell began stealing city funds in 1990 and continued for more than two decades. She transferred public money into accounts she controlled and manipulated financial records to conceal the thefts. Meanwhile, she developed an extravagant lifestyle centered on breeding and showing expensive quarter horses.

Her purchases included valuable horses, vehicles, real estate, and luxury equipment. While Dixon struggled with financial difficulties, its trusted financial officer was using municipal funds to finance a thriving horse-breeding operation.

The scheme finally unraveled in 2011 when another city employee, temporarily handling Crundwell's duties during her absence, discovered suspicious banking activity. Investigators subsequently uncovered one of the largest municipal frauds in American history. Crundwell pleaded guilty to federal wire fraud charges. In February 2013, she was sentenced to 19 years and seven months in federal prison for stealing approximately \$53.7 million.

The case illustrates a fundamental weakness in financial management: **when one trusted employee controls too many aspects of an organization's finances, even enormous thefts can remain undetected for years.**

The CEO Who Stole Millions from Investors

Embezzlement is not confined to clerks and bookkeepers. Corporate executives can also exploit their positions to divert funds entrusted to their companies.

Russell Wasendorf Sr., founder and chief executive officer of Peregrine Financial Group, operated a futures brokerage firm headquartered in Iowa. Over approximately two decades, he secretly diverted customer funds while falsifying financial records to conceal the missing money.

Wasendorf manipulated bank statements and provided false information to regulators, creating the appearance that customer accounts contained substantially more money than was actually available. His scheme affected more than 13,000 customers.

When the fraud collapsed in 2012, investigators discovered that he had stolen more than \$215 million. Wasendorf pleaded guilty to federal charges involving fraud, embezzlement, and false statements to regulators. In January 2013, he received a 50-year federal prison sentence.

The Peregrine case demonstrates that sophisticated accounting systems and government regulation cannot always prevent fraud when senior executives deliberately falsify records and obstruct independent verification.

Why Embezzlement Often Goes Undetected

Many embezzlement schemes continue for years because the offender occupies a position of trust. Employers may be reluctant to question a longtime employee who appears dependable, works diligently, and seems personally devoted to the organization.

Small businesses, churches, charities, and local governments may be especially vulnerable when limited staffing allows one individual to receive payments, maintain accounting records, reconcile bank statements, and authorize expenditures.

Financial irregularities may initially appear insignificant. A missing invoice, an unexplained bank charge, or a discrepancy in a payroll account may be dismissed as an ordinary bookkeeping

error. When no one independently reviews the records, those small discrepancies can accumulate into substantial losses.

Ironically, an employee who never takes vacations or insists on personally handling every financial transaction may be concealing misconduct. That behavior does not establish dishonesty, but organizations should avoid systems that depend entirely on one individual's control.

Is Embezzlement a State or Federal Crime?

Embezzlement can be prosecuted under state or federal law, depending on the circumstances. State laws commonly address the misappropriation of money or property belonging to employers, customers, organizations, or other individuals.

Federal criminal laws may apply when the offense involves federally regulated financial institutions, certain government programs, or other activities covered by federal statutes. Conduct involving interstate communications or financial transactions may also support related federal fraud charges.

The seriousness of the offense often depends on the value of the property taken, the defendant's position of responsibility, prior criminal history, and other circumstances specified by law.

Penalties can include imprisonment, fines, restitution, probation, and forfeiture of assets acquired with stolen funds. Particularly large schemes may result in lengthy prison sentences, especially when prosecutors establish multiple offenses or substantial losses.

A person convicted of embezzlement may also face civil lawsuits, professional licensing consequences, and difficulty obtaining future employment involving financial responsibility.

How Can Organizations Prevent Embezzlement?

The most effective protection against embezzlement is a financial management system that does not depend entirely on personal trust. Even honest employees benefit from clear procedures that protect them against mistakes, misunderstandings, and unfounded accusations.

Organizations can reduce their vulnerability through several practical safeguards:

- **Separate financial duties.** The person receiving payments should not also have unrestricted authority to record transactions and reconcile bank accounts.
- **Require independent reviews.** Bank statements, financial reports, and unusual transactions should be examined regularly by someone other than the employee responsible for preparing them.
- **Use dual authorization.** Significant payments and electronic transfers should require approval from more than one authorized individual.
- **Conduct periodic audits.** Independent financial examinations can identify weaknesses in

accounting procedures and uncover suspicious transactions.

- **Control electronic access.** Financial software and banking systems should use individual accounts, appropriate permissions, and secure authentication.
- **Encourage reporting.** Employees should have a confidential means of reporting suspected financial misconduct without fear of retaliation.

These precautions cannot eliminate every possibility of fraud, but they can make embezzlement more difficult to commit and easier to detect.

When Trust Becomes a Liability

Embezzlement is fundamentally a crime involving the abuse of trust. The offender is not necessarily someone who forces entry into a building or threatens another person. More often, it is someone who has been given legitimate responsibility for safeguarding another person's money or property.

The cases of Rita Crundwell and Russell Wasendorf demonstrate how financial misconduct can continue for years when trusted individuals manipulate records and avoid effective oversight. Their schemes differed enormously in scope and setting, but both depended on the ability to control money while concealing its disappearance.

The lesson is that trust and accountability must work together. Sound financial controls are not evidence of suspicion or disrespect. They are essential protections for employees, employers, investors, taxpayers, and everyone else whose money is placed in another person's care.

After all, the best way to prevent someone from helping themselves to the company treasury is to make sure that no one person controls the keys.

See Also: Understanding Embezzlement and Financial Fraud

For additional information about embezzlement and related criminal laws, consult these resources:

- **Cornell Law School, Legal Information Institute:** [Embezzlement](#) — Explains the legal definition of embezzlement and how it differs from other forms of theft.
- **U.S. Department of Justice:** [Rita Crundwell Sentencing](#) — Documents the theft of \$53.7 million from Dixon, Illinois.
- **U.S. Department of Justice:** [Russell Wasendorf Sentencing](#) — Describes the Peregrine Financial Group fraud and the resulting federal conviction.

Legal Information Notice: This article provides general educational information about embezzlement laws in the United States. It is not legal advice. Criminal statutes, penalties, and

available defenses vary by jurisdiction. Readers should consult current laws or a qualified attorney regarding specific circumstances.