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PUBLIC LIBRARIES AND EMBEZZLEMENT: AN EXAMINATION OF INTERNAL CONTROL AND FINANCIAL MISCONDUCT

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Embezzlement and similar crimes of financial misconduct are a growing area of concern for library managers and trustees. Library budgets have increased dramatically during the past twenty years, but this has not been accompanied by a corresponding increase in financial management techniques. This study investigated a national sample of ten states and an in-depth case study of one state (Indiana) using the technique of internal control (a subspecialty of auditing), both to understand how the embezzlements occurred and to suggest areas of improvement in library financial management to deter future cases of embezzlement. Libraries that experienced embezzlement tend to lack internal practices, a condition that may be common to many public libraries. Two general findings emerged from the study: embezzlement is a continuing problem in public libraries, and better training in financial management for librarians and library board members should increase awareness of the risks of embezzlement and significantly deter embezzlement.

I. Introduction

> Embezzling from a library? Doesn't that show a lack of ambition?
>
> (Early reviewer of the research)

It is tempting to dismiss an investigation of library embezzlement with a flip comment. However, there is a long history of embezzlement in librarianship. For example, Klas Linderfelt, ALA's president from 1891

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to 1892, was forced to resign as both ALA president and director of the Milwaukee library after it was discovered that he had embezzled over $9,000 from the library during a nine-year period [1].

Part of the difficulty in recognizing the risk of embezzlement may come from thinking about libraries as small enterprises, from which stealing is not worth the effort. An examination of library budget statistics for 1993, however, indicates that the median budget for even a small library (serving a population of 10,000-24,999) is over $229,000 [2], below Wall Street standards but large enough to be tempting.

A number of library practitioners also appear to have come to the conclusion that library assets are large enough to be worth stealing. A 1987 *American Libraries* editorial, for example, notes with only slight exaggeration the increasing frequency of embezzlement cases reported in the library and popular press [3]. More recently, a casual reading of the 1994 issues of *American Libraries* uncovers no fewer than eight reports of fraud, theft, or other financial misconduct in libraries. This evidence does not necessarily signify that librarians are turning to crime en masse, but anecdotal evidence does indicate the need to investigate the nature and extent of embezzlement.

Given these indications that embezzlement may be a problem in public libraries, the purpose of this study was twofold: (1) to investigate occurrences of embezzlement nationwide to determine if embezzlement is a widespread problem and, if so, the general conditions under which embezzlement occurs and (2) to examine library embezzlement in detail in a representative state, with the goal of understanding not only how it occurs but also how to suggest improvements in library management that would discourage future cases. The study examined a representative sample of states and then focused on Indiana as a case study. The analytic framework used in the research was internal control, a subdiscipline of auditing that is specifically concerned with the protection of organizational financial assets.

II. Methodology

Defining Embezzlement

Embezzlement, as a rule, is not distinguished in state criminal law as a separate criminal offense. Embezzlement is included with a broad range of crimes under the rubric of property-related offenses. This includes crimes of financial misconduct, but also larceny, burglary, and related property crimes that were not examined in the study. In order to operationalize embezzlement and narrow the scope of the study to a more precise set of criminal activities, embezzlement was defined with criteria devised by D. R. Cressey [4] .

Cressey abandoned a strictly legal concept of embezzlement, noting that the term "did not describe a homogeneous class of criminal behavior" [4, p. 20] . In place of a legal definition, Cressey established two criteria for inclusion in a category he termed "criminal violation of financial trust." The criteria are that the "person must have accepted a position of trust in good faith" and that the person "must have violated that trust by committing a crime" [4, p. 20]. As he points out, the first criterion is nearly synonymous with the legal definition of "felonious intent," while the second criterion allows the inclusion of individuals who meet this condition even though they may have been convicted of other crimes of financial misconduct such as larceny or forgery. This wording allows a consistent definition that included all of the prosecuted cases investigated in this research. Cressey and other researchers (for example, [5]), however, use the terms "embezzlement," "fraud," and "financial misconduct" interchangeably. The terms are also used interchangeably in this study.

Sample Selection: National Sample

The research examined a period from 1983 to 1992. The early 1980s mark the beginning of a large volume of literature on financial misconduct. (This may be due, in general, to widespread interest in business ethics during the excesses of the Reagan years and the more stringent internal reporting standards that were mandated by the *Foreign Corrupt Practices Act* [6]). The ten-year period marks the start of the earliest case in the 1980s and continues through the latest reported case.

An initial sample of cases was collected by conducting keyword searches for crime and libraries on the following databases: *Library and Information Science Abstracts, Library Literature, Lexis,* and *Nexis.* The original set of cases included a variety of criminal activities not related to financial misconduct (for example, book theft and personal assault). We applied the working definition of embezzlement adapted from Cressey to extract a sample set of five states in which embezzlement was reported.

Since the states reporting embezzlement cases may have aberrations and/or other states with embezzlement cases may not have been reported in the press, an additional, random sample of five states was selected and examined for cases of embezzlement, resulting in a total of ten states in the sample (see table 1).

None of the states in the sample maintained centralized records of public library embezzlement, so the investigators conducted telephone interviews with state library personnel to determine if any cases of em-

TABLE 1

ANALYSIS OF NATIONAL SURVEY INFORMATION ON EMBEZZLEMENT

State	Number of Incidents	Embezzler's Position	Means of Embezzlement	Amount Stolen	Means of Discovery	Control of Finances	Audit Requirements
Arkansas	3	Library directors	Inflating salary checks, redirecting library funds	1. $90,000 2. NA 3. NA	NA NA NA	Librarian and board of trustees only	No audit required
Florida	1	Account clerk II	Failing to deposit cash from fines	$56,000	Regular audit	Varies; through municipal or county financial systems or district library systems	State requires annual audits for districts, municipal and county systems
Illinois	1	Library director	Using library funds to pay for personal expenditures	$160,000	Staff members noticed irregularities in payment procedure	Varies; local control or through municipal or county financial systems	State requires annual audit
Indiana	5*	. . .	. . .	. . .	. . .	. . .	. . .
Iowa	0	NA	NA	NA	NA	Librarian and board approve payment; actual payments are through municipal clerks	Annual audit required for municipal populations over 2,000
Maryland	1	Library director	Failing to deposit cash from fines	$69,000	Regular audit	Librarian and board of trustees only	State requires annual audit

Michigan	1	Library administrative secretary	Failing to deposit cash from fines	$400,000†	Regular audit	Librarian and board of trustees only	No state requirement, varies with local procedure
Montana	0	NA	NA	NA	NA	Varies; librarian and board of trustees only or through municipal or county financial systems	No state requirement, varies with local procedure
New Jersey	2	Library directors	1. Using library funds to pay for personal expenditures	$45,000	New board member suspicious of home-made expense vouchers	Varies; librarian and board of trustees only or through municipal or county financial systems	State requires annual audit
			2. Directing library funds into personal accounts	$86,000	Secretary noticed altered checks		
Texas	2	Library directors	1. Misusing foundation funds (exact nature unknown)	NA	NA	Varies; local control or through municipal or county financial systems	No state requirement, varies with local procedure
			2. NA	NA	NA		

NOTE.—NA, not available.
*Possibly higher because of more in-depth investigation.
†Maximum estimate.

bezzlement had occurred during the ten-year period. Library personnel in eight out of the ten states reported embezzlement cases, for a total of sixteen cases (see table 1).

Sample Selection: Indiana Case Study

For the purposes of the research, an in-depth investigation of managerial practices was required in order to understand why and how library embezzlement occurred. The selection of Indiana as a case study was made for three reasons. First, the circumstances under which embezzlement occurred in Indiana were representative of the conditions for embezzlement found in the national sample. Indiana's public libraries all have local financial control and are intermittently audited by the state. (These were defining characteristics common to all cases of embezzlement in the national sample. See the Results section concerning the national survey.) Second, by using Indiana as a case study site, we achieved more extensive coverage of the phenomenon of public library embezzlement. Even at the first level of data collection, Indiana had the largest number of embezzlement cases for any state during the study period. Third, the researchers had close contacts to the library community in Indiana. Given the sensitive nature of the subject, a good rapport was particularly useful for gathering information. The implications of using a single state as a source of embezzlement cases (particularly for the transferability of the study's findings) are discussed in the concluding section.

The original literature search of online databases yielded a sample set of four cases in Indiana. Interviews with informants in the state library community and investigation of state legal records produced one additional embezzlement, making a total of five cases. The researchers rechecked their sample with a variety of librarians, library board members, and auditors in Indiana, all of whom were unable to add additional cases to the sample.

Data Sources

Data for the cases in the national sample were gathered through interviews with state library personnel, librarians at libraries in which embezzlement had occurred, and printed accounts identified by the literature search. The Indiana case data were gathered from several sources.

Interviews included those with (1) state board of accounts auditors (two), (2) library board members (at the time of the embezzlement) (three), and (3) current directors or staff of libraries in which embezzlement had taken place (five). The numbers in parentheses indicate the number of informants for each category. To maintain the confidentiality of the informants, they are referred to in the text by the number of their interview category followed by a letter (for example, the second auditor is referred to as 1-b and so forth). Document analysis included that of minutes of library board meetings, audit reports prior to and subsequent to the discovery of embezzlement, newspaper accounts (see the appendix for references), court records and investigation reports, library financial procedures in effect prior to and subsequent to the discovery of embezzlement, state laws and regulations concerning library financial management, and documentation of changes in financial control procedures in libraries that experienced embezzlement.

Data Analysis

Cases of embezzlement in the study were first analyzed to understand both the descriptive circumstances (what happened) and the organizational environment in which the crime occurred (how they were allowed to happen). The state case data were analyzed first to determine the methodology of embezzlement. Specifically, the analysis included identifying the mechanisms for internal control, the specific audit requirements for public libraries, the mechanism for embezzlement, the dollar amount of the loss, and the means by which the crime was discovered. The results of this analysis are summarized in table 1.

It was not sufficient, however, simply to understand how the crimes occurred. A further objective of the study was to understand how the crime was allowed to occur. The analytic framework used for this analysis was internal control, which can be defined as "the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, and encourage adherence to prescribed managerial policies" [7, p. 211]. Specific internal control programs may vary, but all good systems of internal control have principles in common. These principles are often referred to as elements (or a checklist) of internal control. These elements can be used to evaluate any organization's internal control procedures [8, p. 912]. The checklist used in the study was originally formulated by A. Ahrens and J. Loebbecke [7] and subsequently modified by C. Horngren [8]; it is a standard in the accounting field. The specific elements in the list are: (1) separation of duties, (2) adequate documentation, (3) independent checks, (4) proper procedures and authorizations, (5) bonding, job rotation, and enforced vacations, (6) physical safeguarding of assets, and (7) choosing reliable personnel. Each of the elements used for analysis in the study is described in greater detail below.

Separation of duties.—Employees who deal with financial matters and assets sometimes have overlapping job duties. One individual, for example, may be responsible for ordering books, checking in shipments, and paying bills. In these cases, it becomes easy to misappropriate assets either by stealing them and reporting them placed in the library's inventory and/or by authorizing payments to fictitious vendors or for fictitious orders from real vendors. The risk of financial misconduct is significantly reduced in organizations by separating the responsibilities for record keeping, authorizing purchases and payments, and taking custody of assets and distributing these among different employees.

Adequate documentation.—The more quickly and completely that financial transactions are recorded in an organization's records, the more difficult it becomes to perpetrate fraud or to have fraud continue undetected. Good financial records are, of course, a basic information source for managerial control and decision making regardless of the likelihood of fraud.

Independent checks.—Continuous, independent review of internal control procedures helps insure that they continue to protect the organization's assets. Over time, employees may forget procedures or intentionally fail to follow them, or conditions in the organization may change to such a degree that the procedures are no longer effective.

The term "independent" in this context refers to review by individuals outside the organization or at least to persons who are not directly involved in preparing the data or who are otherwise lacking in independence (for example, a subordinate checking a supervisor's work). Most of the value of verification as a means of internal control is lost without independence on the part of the checker.

Proper procedures and authorizations.—Elements of internal control have no value without guidelines to insure their use. Similarly, if any employee can exercise discretion to acquire or expend assets, the result is chaos. Explicit guidelines for internal control, such as record keeping or limiting authority for purchases and payment, help insure the consistent application of internal control procedures and maintain managerial control over the organization's assets.

Bonding, job rotation, and enforced vacations.—Bonding (insurance that reimburses the organization for losses incurred by the misconduct of persons in a position of trust) is a means of recovering a loss if fraud should occur. It can also, in itself, be a deterrent to fraud by alerting management to the magnitude of damage that an individual can accomplish, forcing a change in internal control procedures.

Key employees in positions of financial responsibility may be tempted to misappropriate funds. If every employee's job duties are periodically performed by someone else (for example, while on vacation or through job rotation), the likelihood of fraud is reduced. (A dishonest employee's practices can seldom be effectively hidden for two weeks while another employee performs the same duties.)

Physical safeguarding of assets and choosing reliable personnel.—The two remaining categories from the checklist, physical safeguarding of assets and reliable personnel, were not relevant to this research. Theft of physical assets did not meet the criteria for financial misconduct as defined earlier. The criterion of "reliable personnel" was not used because embezzlers generally begin as honest employees and change their perspective over time [4]. The general practice of selecting competent, honest employees is a task beyond the scope of financial management. Although these elements are important in library internal control, they are not central to the current research.

Each case of embezzlement in the state case study was analyzed in the context of these elements of internal control to understand how and where shortcomings in the organization allowed financial misconduct to occur. A discussion of the analysis and reconstructions of how the crimes occurred are found in the Results section.

III. Results

National Sample

An examination of the state data produces the following common characteristics of states that experienced (or in some cases avoided) embezzlement.

Embezzlement appears to be a common problem throughout the country. Three of five states in the random sample reported cases of embezzlement. Among these, Arkansas had three cases in the study period. The actual number of instances in the states is, in fact, probably larger since it is estimated that up to 75 percent of embezzlement cases discovered go unreported [9].

The amounts embezzled from libraries are comparatively large. The smallest amount reported in the sample was $40,000, and in several cases losses were greater than $100,000. These amounts are significant proportions of the average library budget. Moreover, the amounts are probably underreported because the lack of good financial records that characterizes embezzled institutions makes it difficult to estimate accurately the loss incurred.

The ways in which funds were embezzled are relatively unsophisticated. In most cases, the embezzlement consisted of library personnel forging checks, submitting fraudulent payment vouchers, or diverting undeposited cash to personal accounts. In each case, the embezzlement was uncovered either by a regularly scheduled audit or because other library staff became suspicious.

The libraries in the sample operated under a variety of financial control mechanisms, including incorporation into municipal and county systems and independent organizational control. However, with one exception, all of the libraries in which embezzlement occurred maintained financial control solely through a board of trustees and/or a head librarian. In all of the cases, embezzlement occurred in conditions of lax or nonexistent internal control. Libraries in the two states in which there were no reported cases maintained financial control only through larger municipal, county, or regional financial systems.

Given these findings on the national level, we went on to examine library embezzlement in detail in Indiana.

Indiana Case Study: How Embezzlement Occurred

All of the Indiana cases involved a single individual working alone. In four of the five cases, the embezzlers were library directors. The methods by which these individuals misappropriated library funds can be grouped into three general classes. These are using library funds to pay unauthorized personal expenses, writing inflated salary and expense checks, and diverting deposits intended for library accounts. Each of these classes is discussed in greater detail below. (See table 2 for an inventory of the embezzlement circumstances in each library investigated.)

Using library funds to pay unauthorized personal expenses.—In all of these cases, library bills were paid using a carbon-loaded checkbook, sometimes called a "1-Write" system (that is, a check producing a carbon copy on the counterfoil remaining in the checkbook). There were two possible scenarios. First, if both the library and the embezzler conducted business with the vendor, only a single step occurred in check writing. The embezzler simply wrote a check to the vendor (for example, *American Express),* producing a carbon copy on the counterfoil. Second, if the vendor did business only with the embezzler, and not with the library, the embezzler wrote a check to pay a personal expense (for example, $550 for clothing from *The Limited)* but inserted a piece of paper between the check and the counterfoil so that no carbon copy was made. The embezzler then wrote fraudulent information on the check register indicating that a check in the same amount was to pay a legitimate vendor (for example, $550 for library furniture).

TABLE 2

ANALYSIS OF INDIANA SURVEY INFORMATION ON EMBEZZLEMENT

Library	Population Served in 1991*	Embezzler's Position	Amount Stolen	Amount Recovered	Period of Embezzlement	Means of Embezzlment	Means of Discovery	Case Disposition
A	18,625	Director	$68,660	$26,245 (bond; library was not covered by the bond for inflated salary payments)	1980–83	Undocumented/inflated reimbursement, inflating salary payment, diverting library funds into personal accounts, using library funds to pay personal expenses	State board of accounts audit	Sentenced to 1,000 hours of community service, four years of probation, $100 fine, and court costs
B	NA†	Director	$241,907	$75,000 (bond)	1980–86	Undocumented/inflated reimbursement, inflating salary payment, using library funds to pay personal expenses	Vendors requesting payments from board members	Sentenced to five years in prison and five years of community service without pay
C	11,657	Director	$10,366	$10,366 (reimbursed by embezzler)	1989–91	Undocumented/inflated reimbursement, using library funds to pay personal expenses	Bookkeeper noticing that newly purchased items were not appearing in the collection	Sentenced to six months home detention, one year of community service, $10,300 in restitution, and $1,100 in court costs
D	19,468	Library board treasurer	$31,257	$32,000 (reimbursed by embezzler, amount includes court costs)	1983–85	Diverting library funds into personal accounts	Bank official mentioned to a second library trustee that a library CD had been redeemed early	Sentenced to four years in prison (suspended), with six months to be served in a work-release program, four years of probation, $500 fine, and court costs
E	770,684	Accounting clerk	$482,811	$25,000 (bond)	1982–88	Diverting library funds into personal accounts	Data-entry clerk noticed similar handwriting on deposit slips from different branch libraries	Sentenced to three years in the Indiana Women's Prison

*Statistics are from [2].

†State-wide lending agency.

Having written the check and entered a record of it appropriately, the embezzler then had two options for having the check signed. He or she simply forged a board member's signature on the check, or the check was presented at a monthly board meeting when board members signed numerous checks (as directed by the embezzler) without checking the legitimacy of the claims.

The latter method of having checks signed was generally employed in instances in which payments were made to vendors with whom both the embezzler and the library conducted business. Other instances in which the library made payments to the same vendor for library and the embezzler's expenses were utilities and local vendors such as hardware stores, plumbers, electricians, and appliance vendors.

Writing inflated salary and expense checks.—In one library, the librarian simply began writing herself salary checks twice as large as her official salary. The individual had complete control of the organization's financial assets and records, so that the board members responsible for approving salaries were unaware of the increase. All of the normal withholding taxes were paid on the increased salary, with the result that no notice was taken by the IRS or state tax authorities. The same individual and two embezzlers in other libraries in the sample also wrote checks to reimburse themselves for travel and other expenses for amounts that were significantly higher than their actual expenses or for expenses they had never incurred. The checks (both salary and reimbursement) were presented to board members for signing at regular meetings. As in the earlier example of paying personal expenses for embezzlers, the board members signed checks as directed without verifying the legitimacy of the amounts or the payees.

Diverting money intended for library accounts.—In all of the cases, the embezzlers diverted funds to their personal accounts. There were three ways in which this occurred. The first was petty cash theft. The librarian simply took cash from the daily receipts (for example, book fines). Since monies were taken before they were entered in the library's financial records, there was no evidence the money had been received or was missing. The second way was simple forgery. A library treasurer, in one instance, forged several signatures and withdrew the contents of a library certificate of deposit (a CD of approximately $30,000) for his own use. The library had established guidelines for withdrawing CDs requiring the signatures of two board members made in the presence of a bank officer. The bank simply ignored the guidelines and released the funds to the treasurer. The third way was diverting daily deposits of fine money from branch libraries. In one case, the embezzler was responsible for receiving and depositing daily receipts from a number of branch libraries in a large metropolitan library system. Each day, branch libraries would send their daily receipts for fines and user fees such as tape rentals to a central office. The deposits were in the form of cash and/or checks received and a deposit slip. The embezzler then modified the receipt (either by changing the amount listed or writing a new deposit slip) for a smaller amount and kept the difference. For example, a branch library sent a deposit of $194. The embezzler modified the deposit slip to read only $94 and kept the remaining $100.

Indiana Case Study: Magnitude of the Embezzlement

The amount of money embezzled ranged from $10,000 to more than $400,000 over a period of years (see table 2). Apart from the $30,000 check forgery in library D, the comparatively high total is the result of multiple small embezzlements (usually $50 to $1000) over a period of two to five years, rather than the misappropriation of large sums.

Indiana Case Study: How the Embezzlement Was Discovered

Table 2 summarizes the circumstances by which the embezzlers' financial misconduct came to light. These included a regularly scheduled audit by the state, calls by unpaid creditors and bank officials to board members, and suspicious bookkeepers and business managers. Despite this variety, two aspects were common to all of the cases. First, none of the cases of embezzlement was uncovered through regular organizational oversight operations or management procedures. In only a single case did the embezzlement come to light as the result of an audit, which was scheduled by a state agency rather than the library. In the remainder of the cases, discovery of the crime came about as the result of chance communication, suspicions of other employees, or pressure from unpaid creditors. These are notable for being nonsystematic or casual means of discovery, which could easily have been ignored or missed by library personnel, allowing the embezzlement to continue. One library employee (3-a) characterized the situation by stating, "We were lucky that [the bookeeper] just happened to notice something missing in the [book] stacks that she paid for, or we could have missed the whole thing entirely."

None of the cases of embezzlement was uncovered in a timely fashion. The library embezzlements occurred over periods that ranged from two to six years. The durations of the crimes, in fact, are only an approximation. In many cases, a lack of financial records made it difficult or impossible for investigators to determine the exact period over which money was embezzled. As one auditor (1-a) stated, "We only had two years of financial records to look at, so that's the whole period we could say fraud occurred. Who knows what happened before that?"

This section has reported only on mechanisms by which embezzlement occurred. A full understanding of library embezzlement also requires an exploration of how and why library management allowed embezzlement to occur.

Indiana Case Study: Internal Control in Libraries that Experienced Embezzlement

Separation of duties.—In each case of financial misconduct, the embezzlers were individuals who had direct discretionary control over library funds. In three cases the embezzler was the sole person in the library who verified bills to be paid, wrote the checks, presented them to a library board for payment, and maintained the financial records—including reconciling the library checkbook. In one instance, although a bookkeeper maintained accounts of expenditures, the librarian who embezzled still had sole control of spending and verifying claims for payment. In the single instance in which the embezzler was not a director or treasurer, she was in charge of depositing fine monies collected in cash from branch libraries.

Adequate Documentation.—Two of the libraries kept no financial records of any sort. In both libraries, according to the auditors, it was virtually impossible to determine exactly how much money was spent and the purposes for which it was used. A third library had incomplete financial records. The auditors reported that the library's financial transactions were irregular and incomplete. At the time of the audit there had been no postings to the accounts for more than two months and no reconciliation of the records and bank statements for more than ten months.

Both library D (in which the treasurer was the embezzler) and library E (in which fine monies were diverted) had sets of financial records in which transactions were recorded in a timely fashion. However, a number of the transactions that were recorded were fraudulent. In neither of these cases was documentation independently verified by other individuals.

Independent checks.—None of the libraries studied had any internal audit procedures or independent verification of expenses apart from the controls mandated by state law. In Indiana, state law mandates only two outside controls on library funds. The first is the library board of trustees. This is the main governing body for public libraries in Indiana. Each library has its own board, which is appointed locally by county commissioners, county council members, and local school boards. By law, the board of trustees approves all library operating expenditures, and several board members' signatures are required for checks. The second is the state board of accounts. The board is responsible not only for examining library financial records to uncover cases of financial misconduct but also for advising libraries on better financial management practices. Audits are conducted on an average of once every three years. The role that these independent, controlling institutions played in cases of library embezzlement is detailed below.

1. Library board of trustees.—Indiana law stipulates that responsibility for financial matters resides with the board treasurer rather than the head librarian. In the three cases in which the library director committed the embezzlement, however, the treasurers only prepared financial statements, leaving the daily financial management of the library to the library directors. In one case, the treasurer was the embezzler.

Two library board practices greatly facilitated embezzlement: inattention to check signing and inadequate signatory requirements for checks. In the first instance, library boards regularly presigned blank checks and approved payments for expenses without reviewing the supporting documentation. In numerous cases in which board members signed checks, the accompanying documentation was inadequate to support the payment or was nonexistent. Signatory requirements could be similarly circumvented during the period the study examined; state law required only two signatures on library checks, one of which could be that of the library director. Only one actual signature was required to validate checks. In several cases of embezzlement, library directors or the treasurer simply wrote checks at will, validating the checks with only their signature and the signature stamp of the designated signing board member.

2. State board of accounts.—The state board of accounts serves as an independent auditor for public libraries in Indiana. In each case in which the board performed an audit, it quickly uncovered and brought to light evidence of embezzlement. (In some cases an audit was requested by the library on the basis of suspicions of other staff or board members.) When embezzlement occurred, however, it was during the interval between scheduled audits. Library board members can request an audit (and did so in several cases in the sample) when they suspect misconduct. In the absence of a request, however, the agency normally conducts library audits at intervals of three to four years.

The board of accounts also lacked enforcement powers in cases in which there was no evidence of a crime. The board was unable to enforce its recommendations to improve financial record keeping, regardless of how severe the library's shortcomings were. This deficiency was material in at least one of the embezzlement cases, in which the audit report prior to the period in which the embezzlement took place referred to library financial records that contained "numerous posting errors and omissions" and cash handling procedures that "revealed little control was exercised." The report suggested corrections and changes to the library's record keeping that would have made the embezzlement that subsequently took place significantly more difficult to accomplish, but the library was never forced to implement them. In addition, even if financial misconduct were uncovered during an audit, the board could elect not to press charges. According to an auditor informant (1-b), if an audit uncovered evidence of embezzlement of less than $10,000, or if the state did not have a clearly winnable case, charges were generally not filed.

Subsequent to the cases that this study examined, some state regulatory reform was undertaken to improve independent checking. Library directors may no longer serve concurrently as board treasurers, and checks for library expenses now require actual signatures rather than signature stamps. However, the state board of accounts still has no enforcement powers for financial record keeping, and it appears unlikely that this will change in the foreseeable future. Two auditors (1-a, 1-b) commented that the trend in matters of standards for financial accounting is toward greater local autonomy, or home rule.

Proper procedures and authorization.—All of the libraries in which embezzlement occurred had procedures for the authorization of payments. These were mandated by state law and required a minimum of two signatures on library checks, one of which had to be that of a library board member, together with documentation of the legitimacy of the claim. In three of the five sample libraries, the signature was the only authorization requirement and the only one for which the libraries had written procedures. Libraries D and E were exceptions. Library D had an additional requirement of two signatures written in the presence of a bank officer before a library account could be closed. Library E had a variety of procedures and authorization requirements, including some governing the deposit of fine monies (the source of the embezzled funds) but none for verifying the deposits.

With exception of library E, a notable feature in the remaining four cases was that the procedures that were in place to assure proper authorization were largely ignored. Proper authorization was not required, in most cases, to receive money. As noted earlier, board members routinely presigned blank checks and/or approved payments without verifying the accompanying documentation. In the case of library D, the bank responsible for verifying the signatures on the library checks simply did not require the presence of the signatories and routinely turned over money on the strength of forged endorsements.

Bonding, job rotation, and enforced vacations.—None of the sample libraries practiced any of these internal control measures except bonding, which is required by state law. The common practice in the sample libraries was to maintain the employees' bonds at whatever the historical level of coverage had been. As one current director (3-c) described the situation, "We renew the bond based on what it was last year. I doubt there'd been a change before the embezzlement for twenty years." As a result, all of the libraries were bonded for significantly less than the amount of their embezzlements. Table 2 illustrates that, except in those cases in which the embezzler was able to make restitution, the library recovered significantly less than the amount embezzled.

Indiana Case Study: General State of Internal Control

There is some anectodal evidence that inadequate financial controls may be the norm for many public libraries, rather than a unique characteristic of libraries where embezzlement occurred. Several of the directors interviewed noted that they were aware of many libraries in which current financial management practices resembled those of the embezzled libraries prior to the crime (for example, no sets of books, little or no review of payment documentation by board members). One auditor confirmed the opinion, noting that "this library [in which embezzlement occurred] wasn't run any worse than most of the ones I audited."

IV. Discussion

Why Was Embezzlement Allowed to Happen?

Research results demonstrate that the embezzlement practices were, for the most part, unsophisticated, even naive. Librarians and board members stole money with comparative ease, not through elaborate or complicated financial fraud. Detecting the crimes was not difficult. In each case the misconduct was discovered during the first audit conducted after the embezzlement began. According to one auditor (1-a), "If this were a regular business, none of these people would have gotten away with this [the embezzlement] for longer than a month."

What made the embezzlement in libraries so damaging was not simply that misconduct had occurred but that the procedures for dealing with financial control in libraries allowed embezzlement to occur for several years. The embezzlers were eventually uncovered, but not before they had caused enough damage to the library to force closures or to impair programs seriously. There appear to be three major reasons for this: inadequate financial management in libraries, library boards' failure to exercise local control over financial matters, and insufficiency of regularly scheduled audits by the state to protect the library against embezzlement. Each reason is discussed in detail below.

Inadequate financial management in libraries.—One of the clearest findings from the research was that the libraries that experienced embezzlement had essentially no financial control. The previous section on internal control illustrates clearly that the libraries regularly violated most basic principles of internal control. In those cases (for example, trustee approval of payments) in which there were control mechanisms, these mechanisms were routinely ignored or violated by library personnel.

The research indicated two causes for this lack of financial control: (1) library personnel and board members were often not aware of the magnitude of library assets (particularly cash), and (2) librarians and library board members were not adequately knowledgeable concerning the practices of financial management. As a result, neither group recognized the need for more sophisticated financial management or the risks that the libraries ran in operating without it.

Cash flows have risen, and significant amounts of money are now taken in by libraries but this change has not been met by a corresponding change in management practice. Fines, for example, are now a significant revenue source for many libraries. The current director (3-a) of a library that had experienced embezzlement noted, "I never realized how much money comes in fines. We're only a medium-sized library, but we take in between $80 and $200 a day in fines. That's enough to be worth taking if somebody wanted it." A similar occurrence took place in library E, in which over $400,000 in fines was embezzled. As one employee (3-e) of the system stated, "Nobody ever knew there was so much cash, so we never looked closely at our internal procedures." Apart from cash management, library budgets have grown to levels at which more formal and sophisticated financial management is needed. As one auditor (1-a) noted, "You have what are essentially businesses with budgets of $80,000 to $100,000 or more that don't even reconcile their checkbooks, let alone keep a set of books." Financial management, however, is not a standard part of library education, and as one director (3-b) described the situation, "You don't ever see a set of books until you have to manage a library with a $100,000 budget." Librarians are frequently placed in managerial positions without an adequate understanding of the need for financial controls, knowledge of how to institute them, or support services to provide training in financial management. A second director (3-a) of a library in which embezzlement had occurred stated, "I had a state auditor in here for months helping me set up a system. It's great, but I never would have known we needed it or gotten the help without the money being stolen." (A similar lack of financial management skills was evident among library board members, which is discussed in the subsequent section.)

Library boards failed to exercise local control over library financial matters.— Library boards regularly abdicated their responsibilities for exercising financial control by presigning checks or by approving payments for expenses without reviewing the supporting documentation. In some cases the lapse of responsibility may have been the result of negligence or inattention on the part of board members. More often, board members were ignorant concerning their duties or the risk of approving expenses without reviewing the documentation. All of the board members interviewed in the study stated that they did not realize that they were at risk and did not understand that it was within their power to reduce and/or minimize the risk.

The consistency of this response may reflect the need of board members to excuse their role in embezzlement, but it is consistent with the proposition that most board members have no professional training or experience with finance prior to their appointment, nor was there any evidence that financial expertise was considered a necessary or desirable skill for a board member. A finding that emerged from the four cases that involved trustee oversight was that library board members received little or no training concerning their financial responsibilities. Even if trustees were interested in matters of financial control, there was little guidance available to them. The standard reference and training materials for trustees, which were the ALA Trustee Association monographs and the Indiana Library Trustee Association manuals, dealt mainly with budgetary and fund-raising duties and condensed financial control (if it was discussed) into a single paragraph [10, 11].

A second, related problem was that board members had simply not considered the possibility of financial misconduct by a library director or another board member. As one board member (2-a) put it, "We trusted the director or we wouldn't have hired her in the first place. Besides, what do I know about accounting?" Another (2-b) made the observation, "Who do you think trains board members in their duties? The librarian they're supervising."

Regularly scheduled audits by the state were not sufficient to protect the library against embezzlement.—Once state audits of libraries were actually conducted, they were successful in uncovering embezzlement. What was problematic about state overseeing, however, was that the audits were conducted too infrequently to prevent severe financial damage to libraries in the intervals between audits. Library embezzlement in the sample was characterized (with a single exception) by numerous small thefts over a period of years. As tables 1 and 2 illustrate, the cumulative effect of even two years of minor theft can result in substantial financial losses to a library. State auditors were also hampered in their overseeing capacity because they lack the power to enforce their recommendations for better financial control. Instituting managerial changes only after a crime occurs is not a sensible approach to financial management.

V. Conclusions

There are four general sets of recommendations for improving library financial management and guarding against fraud that emerge from the study findings. First, the problem of embezzlement is not uncommon in the public library community. Eight of ten states in the sample (including three that had not publicly reported embezzlement cases) had instances of financial misconduct. As noted earlier, the number is likely to be significantly larger, since most cases of embezzlement go unreported. Moreover, even in states with little or no reported embezzlement, the same conditions exist that foster embezzlement, namely, minimal overseeing and unsophisticated or nonexistent internal control procedures.

Second, library systems reduce their risk of financial misconduct significantly when they are part of a larger financial control system (for example, that of a municipality or county). In only a single instance did embezzlement occur in a library under a municipal financial system, and in that case cash was diverted before it entered the system. The finding is not surprising given that embezzlement is more likely to occur in circumstances of low internal control and that municipal or county governments operate under closer public scrutiny.

Third, librarians and library board members need to become better aware of the risks of embezzlement. Management awareness of embezzlement is frequently identified as the "key prerequisite in building any effective fraud prevention strategy" [9, pp. 34-35]. As the internal control analysis indicated, there were numerous instances where embezzlement could have been prevented or significantly hampered by board members or librarians realizing that it was possible and instituting minimal steps to deter financial misconduct. In many instances embezzlement-deterring procedures existed, and better embezzlement protection could have been afforded simply by understanding the need for them and using them.

Fourth, librarians and library board members need better training in financial management. Unfortunately, this training is often not a part of formal board or library training. Librarians and library board members often do not take advantage of available training as the result of not recognizing its value. Understanding the risk of financial misconduct is only the beginning of the process to protect library assets. It is also necessary to institute controls that translate awareness into organizational action.

Overall, it seems clear that better protection for library assets will need to come from within libraries themselves. Internal control and internal financial management not only provide better managerial information and control, but increasingly they will be the only protection available to libraries as state auditing agencies conduct fewer audits. Libraries have the option of becoming better at financial management themselves or ceding control in this area to other governmental bodies.

Specific remedies have not been suggested, since implementation usually varies significantly from organization to organization. The phenomenon of embezzlement has, however, been heavily documented in the general literature of financial management. The reader is directed to this literature (for example, [12-14]) for a better understanding of embezzlement and specific remedies that have been applied in other organizational settings.

As with any case study, the reader must judge the extent to which the findings from the cases in the study can be transferred to other specific settings. There is evidence both from the literature (for example, [15-19]) and from the national study findings that a variety of libraries and other not-for-profit organizations have experienced problems with financial misconduct similar to those investigated in the Indiana case study.

All but one of the instances of embezzlement in the national sample occurred in libraries in which financial control was exercised only at a local level. The cases reported in the literature cited above involve comparable instances of embezzlement by librarians, library trustees, and trustees of other not-for-profits throughout the United States. In each case, the criminals were successful in embezzling funds because the organizations in which they worked or acted as board members had poor financial management practices.

In light of these instances, it is reasonable to believe that libraries (and, indeed, not-for-profits in general) in other states have the potential for similar financial misconduct. Library education, in particular, has not traditionally included financial management in its curriculum, even in requiring management courses. Given this, additional research and evaluation on library financial management practices are needed to better safeguard library assets. Future research is planned by the authors to investigate further the circumstances of embezzlement in public libraries throughout the United States and to assess the risk of embezzlement in libraries that have as yet not experienced or uncovered cases of financial misconduct.

Appendix

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