



# REPORT TO THE ATTORNEY GENERAL

of the

# NATIONAL ECONOMIC CRIME PROJECT

December 1978

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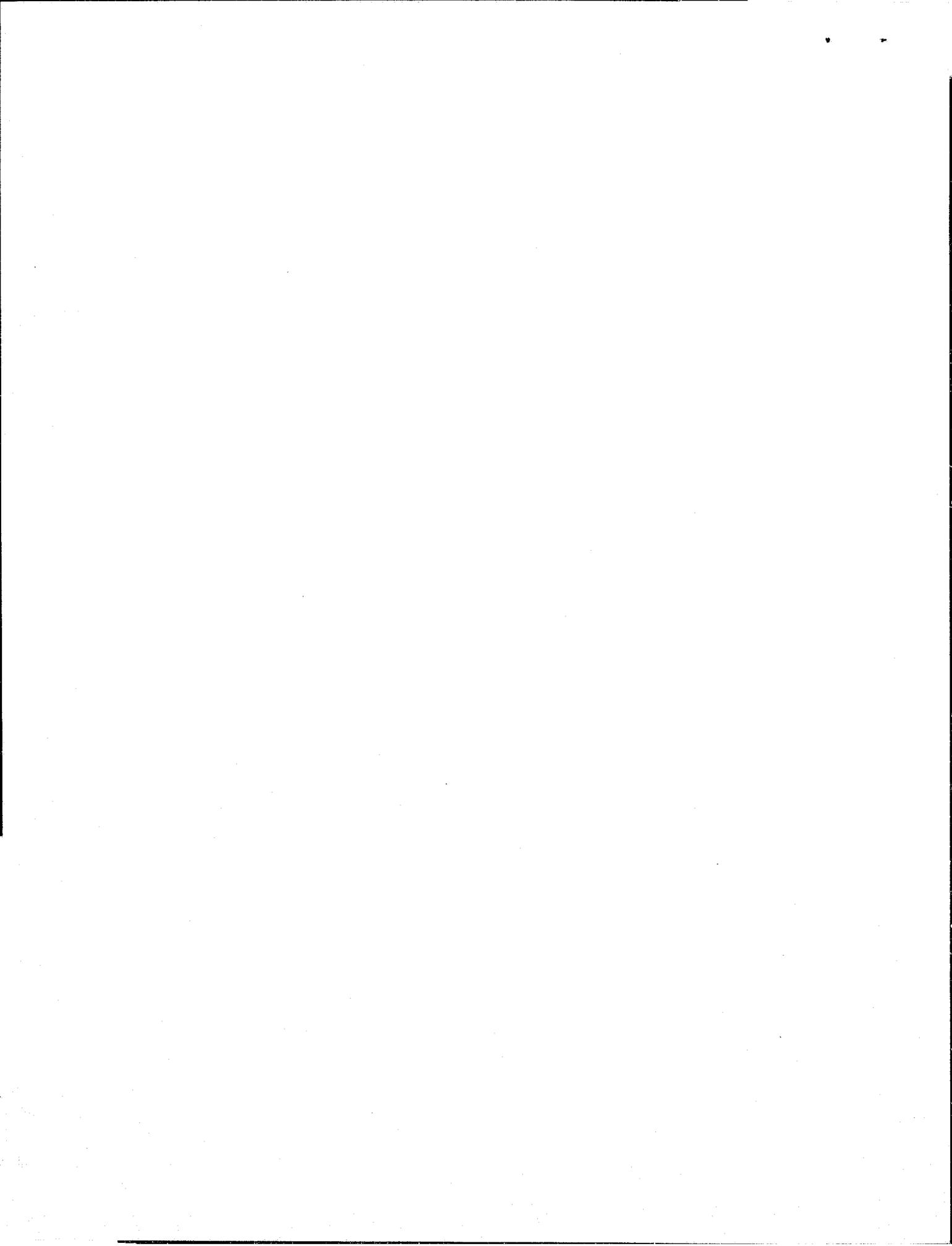
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## PREFACE

White collar crime or economic crime, however defined, has not escaped attention. Despite the absence of a well-defined body of literature, of proven methods for dealing with certain forms of white collar crime, or even of acceptable data on the extent of this type of crime, a significant record of effort and concern has been established by academicians, researchers, and law enforcement officials. Clearly evident now is a need to coordinate and organize these efforts so that greater impact may be realized.

The Attorney General saw this need and designated white collar crime as one of his chief priorities. In partial implementation of that priority, he established the National Economic Crime Project on May 16, 1978, and directed it to test the feasibility of recommendations made in previous studies. This report is the culmination of that effort.

This report clearly indicates that, although there is no current support for the creation of a new national economic crime center or institute as envisioned by several prior reports, the problem of inadequate public sector and private sector cooperation to combat white collar crime against business still remains. The recommendations presented reflect workable alternatives designed to accomplish most of the objectives previously outlined for a proposed national center.

Thanks are owed to many people for their support and assistance throughout the term of this project. To list each one would require naming numerous persons with whom we consulted and who provided materials for this project -- clearly an extensive undertaking. Our appreciation and gratitude, therefore, are extended to all whom we encountered in pursuit of our mission. We are indebted for the universal cooperation that we received from everyone.

We wish to make special note of the fine support provided by the Chamber of Commerce of the United States. Messrs. Hawk and Kelleher were most helpful in providing advice and contacts with the business community. Similar appreciation is extended to Messrs. Leo Perlis and Al Bosch of the AFL-CIO.

A final note of gratitude is extended to our secretary Diane Gibson and to the staff of Information Planning Associates, Inc., who bore much of the staff work and logistical planning.

## INTRODUCTION

Concern on the part of the U. S. Department of Justice about economic crime and the issues raised by private and public responses to this phenomenon is not new. For several years, the Department, primarily through the Law Enforcement Assistance Administration, has sponsored or supported a number of studies, research projects, and demonstration efforts aimed at improving the capabilities of the private sector and of public law enforcement in coping with economic crime against business.

### Previous Studies

These efforts produced a number of reports, which we have reviewed. These prior studies were most informative and proved most helpful as a source of specific recommendations for actions and initiatives.

Several of these prior reports contended that governmental and private response to economic crime against business would be enhanced by the establishment of some sort of national center or institute which would serve as a clearinghouse, a catalyst, and a coordinator for research, training, and demonstration efforts. The advocates for the creation of such an entity argued that there is no centralized structure which documents and follows special white collar crime control efforts. Moreover, they noted that there is no entity which seeks to avoid duplication of research efforts, which organizes and analyzes white collar

crime-related publications, which assures that research efforts are relevant to the needs of the private sector, which fosters the transfer into practical use of newly developed technology, or which performs an advocacy function of assuring that adequate resources are employed in the battle against white collar crime.

The Small Business Administration (1969), as a part of a diversified undertaking to examine and reduce the vulnerability of small businesses to crime, recommended that the federal government:

sponsor a central point of contact for manufacturers of private security devices to evaluate and encourage research and development, standards, and perhaps testing.

The Rand Corporation (1972), in its report Private Police in America, recommended that:

the federal government should consider funding a research center that would evaluate the effectiveness and costs of private security personnel and equipment.

The National Advisory Commission on Criminal Justice Standards and Goals (1973), recommended in its task force report entitled Police:

that a national research study be conducted to determine the duties, responsibilities, and interrelationships of public and private police agencies, and to develop mechanisms to enhance their cooperative delivery of police services.

This recommendation was reiterated by the Private Security Task Force of the National Advisory Committee on Criminal Justice Standards and Goals, which in its 1976 report stated that:

the Law Enforcement Assistance Administration should encourage the development of a national private security resource and research institute.

The American Management Association (AMA)(1977), pursuant to an LEAA grant, organized the Crimes Against Business Council and explored ways of more effectively combatting crimes against business. In its final report released late in 1977, AMA recommended that:

- An Economic Crime Institute (a not-for-profit organization) be established, funded in the main by private sources but with federal government support by means of research grants and dissemination contracts.
- A National Economic Crime Institute would serve as a clearinghouse for information, play a major role in the development and use of a national data base, initiate research, and so forth.

Further, the AMA report detailed the major functions of the proposed entity as follows:

- Initiate research projects in the areas of asset protection, investigative techniques, criminal statistics, criminal justice system structure and process, and so forth, as they relate to economic crime.
- Conduct literature searches to create a "state of the art" awareness of other researches and practices relating to economic crime.
- Make recommendations and design programs in ac-

cordance with findings from its own or other studies.

- Coordinate economic and incidence data from the national data base, the econometric study, and other sources of statistical data.
- Disseminate recommendations, programs, and statistical data to organizations at state, county, and municipal levels.
- Provide technical assistance in the utilization of information.
- Encourage the growth of the proposed information network.

As to governing structure, the AMA report specified:

- The policy of the Institute would be set by a Board of Directors representing the various components of the criminal justice system, private security, the business community, organized labor, and consumer and citizen groups. The staff would consist of a Director and a professional staff with skills in management, communication, training, and social science research.
- The proposed Institute on Economic Crime would look to a combination of sources for its funding. Business, as a recipient of many of the services of the Institute, would be looked to for support. Specific research and demonstration projects should be funded by federal and state governments, and business organizations that have a major interest in the area being investigated.

LEAA contracted with PRC/Hallcrest (1977) to prepare a report on the feasibility of a national economic crime center. The report was supportive of prior recommendations. While noting that many options existed as to how the center might be structured, the report stated as preliminary conclusions that:

- ⊙ The center should be an independent organization. To maintain its independence, the center must be able to carry out its work and present its findings without being restricted by a parent organization. Also, a direct affiliation with any one special interest group might limit its effectiveness in dealing with other groups.
- ⊙ The center should be not-for-profit and tax-exempt. The center's purpose should be to serve the needs of its sponsors and the public, and to provide services not otherwise available. To accomplish this goal, the center may be dependent on a number of sources of funds, including government appropriations, grants and contracts, foundation and association support, and individual and corporate contributions. Many of these funding courses restrict their giving to not-for-profit, tax-exempt organizations.
- ⊙ The center should not be a membership organization. The initial concept incorporates the idea that the center would serve the private sector by providing research and related services that would be disseminated via publications of existing business, civic, professional, trade, and labor organizations. To compete for membership would be self-defeating.
- ⊙ The center should be governed by a Board of Directors. Selection of the Board of Directors would depend upon a number of factors including funding sources.

#### Justice Department Response

Attorney General Griffin B. Bell previously designated white collar crime as a priority area. Upon reviewing this series of recommendations for the establishment of some national center or entity to be concerned with economic crime, private security, and related subjects, the Attorney General created the National Economic Crime Project (NECP) for the purpose of reviewing all such prior recommendations and advising him

as to whether the Department of Justice should spearhead the establishment of such a structure.

The Attorney General's mandate of May 16, 1978 also provided that, should a national center or institute be deemed useful, the project should develop comprehensive plans for the creation of that entity which would be most likely to foster effective collaborative efforts between the public and private sector. The plan should spell out how the center should be organized and governed, how it should be funded, and what its initial projects might be.

The Attorney General directed the NECP to consult with a broad section of the business community, labor leadership, government officials, and the Congress in arriving at its recommendations. He also directed that all work be coordinated with the officials of the Law Enforcement Assistance Administration. This report is the culmination of that mandate.

## NATIONAL ECONOMIC CRIME CENTER

*Contrary to recommendations in previous reports, the Department of Justice should not establish a national economic crime center or institute.*

### Background

A close examination of the recommendations in prior reports for the establishment of a national economic crime center or institute revealed wide variation in thinking as to the exact functions of the proposed entity, its principal constituents and users, its funding sources, its size, and its relationship to the government.

To some extent this variation was due to differences in the use of the terms "white collar crime," "economic crime," and "crimes against business." However, to a greater extent, there were substantive differences of opinion regarding which aspects the proposed institute should focus upon in the continuum of efforts from prevention, to detection, to investigation, and to prosecution. For example, the center as envisioned by the Small Business Administration and the Rand Corporation would be principally concerned with private sector preventive and protection techniques. On the other hand, the AMA envisioned a broad-based, diversified organization concerned with all aspects of economic/white collar crime.

What the reports and their recommendations have in common

is that each envisions a national structure concerned with private as well as public efforts, discharging a clearinghouse function, and, at least initially, supported by the federal government.

The most comprehensive descriptions of a proposed center are found in the 1977 AMA report and in the feasibility study conducted by PRC-Hallcrest. Both reports describe a corporation governed by a board of directors having both public and private representation, concerned with all aspects of white collar crime, and supported by both government and private funding. Both reports express the belief that the business community, if given sufficient influence over the policy and priorities of a center, would provide political and financial support for the proposed organization.

After initial review of the prior reports recommending a proposed center, we understandably began our work with a certain degree of enthusiasm and optimism about a proposed new entity. Nevertheless, we suspended judgement.

Our enthusiasm and optimism were soon to be confronted with the realities which eventually evolved to the present recommendation that the Department of Justice not fund or establish a national economic crime center or institute as had been proposed.

The prior reports were influenced by the belief that there would be substantial private sector funding and support for the creation of a center. The AMA report and the PRC-Hallcrest

study point to the substantial amount of money spent by the business community in private security efforts, estimated to be \$6 billion annually. They argued that the private sector would obviously be willing to invest some resources in a joint government/private enterprise that might have the consequence of reducing these security costs.

A major problem in combatting economic crime against business has been obtaining adequate data from business victims about their problems. Some of the prior writers have expressed the belief that a proposed new center could help overcome this problem. They believed that business executives would be more willing to provide information and assistance to research and demonstration projects sponsored by an organization which the business community supported and influenced.

#### Broad Based Consultation

In order to obtain a broad base of opinion on the issues, we consulted numerous business executives, association directors, researchers, writers, and government officials. We tried to learn from each the extent of their knowledge and concern about the economic crime problem, their opinions and suggestions about possible ways of improving cooperation between the public and private sector, and the degree and kind of support which could be expected for a newly created institute or center.

The criteria used in selecting the interviewees included evidence of concern about the problem of economic crime; the

existence of a policy or managerial position within an organization which would give data on the nature and scope of the problem, and familiarity with or responsibility for methods of prevention, detection, investigation, or prosecution. In identifying government contacts, we sought representatives from federal, state, and local governments. Labor leaders at both the national and local level were identified with the assistance and cooperation of the national headquarters of the AFL-CIO.

We met with 259 persons and communicated by telephone or in writing with 47 others. The total of 306 contacts were distributed within the following categories:

Academic/Research	20
Associations	52
Business	153
Government	55
Labor	26

#### Consultation with Business Executives

The direct consultation with business executives was one of the most unique aspects of our effort. In order to consult a representative sample, three variables were used in selecting business interviewees: type of business, size of company, and geographical location. We selected representatives from all types of businesses -- financial, manufacturing, retail, and service industries. This included companies from the Fortune 500 list as well as firms that were small. All major geographical areas of the country were included.

To ensure that the major areas of concern were addressed in each consultation, we employed a series of questions that addressed four major areas: (1) perceptions as to the nature and extent of the problem; (2) current preventive efforts; (3) attitudes toward increased government and business collaborative efforts, including the proposed national economic crime center; and (4) the degree and kind of support which might be forthcoming for such an organization.

Additional private sector responses were obtained by mailing a questionnaire to several major business associations and to business executives with whom meetings had been scheduled that, for one reason or other, did not actually take place.

In addition, the Northeast Council for Economic Action, a unique group that represents over 3,000 firms in the northeast part of the country, undertook a survey of manufacturing firms in the New England area, inquiring into the same issues. The results of these mailings generally coincided with the results of our personal interviews.

#### Business Community Response

Although not every business executive agreed with all others, certain themes and opinions were repeated often enough and with enough consistency that generalizations may be made about private sector response on some of the issues. Each of these generalized findings had some impact on the ultimate recommendations. The most notable of these findings was the

discovery that business executives generally do not believe, or are not willing to admit, that their business operations are affected to any significant extent by economic crime. Most executives will admit to recalling isolated incidents in which their firms, or firms of which they are aware, have been victimized by an embezzler, a computer manipulator, a dishonest purchasing agent, or a credit abuser. However, such admissions were almost always immediately followed with the comment that such incidents were infrequent and had minimal impact.

None of the business executives with whom we met felt that their economic crime problems had reached crisis proportions; few were even willing to say that their economic crime problems merited significantly more attention than they were presently being accorded.

Most private companies rely principally upon their own security efforts, mainly internal audits and private security personnel, to deter and detect economic crime abuses. Most were generally satisfied with their current security efforts. Some security directors, however, felt that their activities have not been given sufficient financial resources or prestige within their companies. Several top corporate executives expressed some doubt that additional preventative or detection measures would be "cost effective." A significant factor frequently expressed in this equation was the anticipation of negative response from labor and consumer groups to any additional security measures.

The business executive saw the involvement of public law enforcement in combatting white collar crime against private companies as being limited and exceptional. Generally, when a white collar crime abuse is uncovered, company executives attempt to resolve the problem without resort to law enforcement.

The most immediate concern is to remove the contaminating influence, whether it be a particular employee or faulty procedure or both. Measures then are taken to minimize the loss. This will frequently involve some effort to obtain restitution through a private arrangement with the perpetrator. Other remedies may involve a dismissal, demotion, retention of a written "confession" for possible future use, or simply a reprimand.

Frequently, law enforcement activity is seen as being too slow and time consuming, too inflexible, and too process oriented to meet the needs of private business. As a result, except in a few companies which have strong prosecution orientations, public law enforcement is resorted to only in the most exceptional cases or in cases in which efforts to work out private restitution arrangements have failed. The decision as to whether to contact public law enforcement officials is frequently made by the insurance company which has bonded the employees and which is principally interested in restitution. Deterrence or retribution are minor considerations, if considered at all.

Several executives indicated that they would not favor

efforts to limit their flexibility in coping with economic abuses by requiring that all suspected criminal conduct be reported.

Most of the business executives consulted were not encouraged by the prospect of a significant increase in activity by law enforcement personnel in the area of white collar crime against business. The only kind of additional governmental intervention that was invited involved governmental support for more effective private security efforts. For example, several executives proposed that the government provide the business executives with the criminal records of prospective employees.

Proposed joint private and public sector undertakings were viewed with skepticism by company officials. There were numerous complaints of prior government/business undertakings which had ended with business being the dominated and regulated "junior partner." Proposed government/business research efforts were viewed as precursors to additional costly "paperwork" demands being added to those already imposed by other government programs. There were numerous complaints of costly reports being required by the Occupational Safety and Health Administration, the Securities and Exchange Commission, the Internal Revenue Service, the Environmental Protection Agency, the Equal Employment Opportunity Commission, the Department of Energy, and other federal agencies and regulatory bodies.

The proposed economic crime center, even though projected as as an entity with substantial or even predominant private sector

representation on its board of directors, was viewed as yet another costly government "bureaucracy." The argument that the new entity would exist to serve the needs of the private sector in combatting crime proved unconvincing.

The exceptions to these general reactions included a few company officials who, although they were not necessarily supportive of the general concept, could see the possibilities of a center which would undertake activities relating to special problems which they were experiencing. These included possible sponsorship of special shoplifting courts, more effective handling of labor racketeering, and increased federal investigative and prosecutorial attention to bank robbery. Unfortunately, these and most of the other specific special interest activities were not of the type clearly included within the mainstream of the proposed activities of a national economic crime center.

These discussions with business executives were held in group meetings or in one-to-one sessions in corporate offices. Separate interview and discussion techniques were used for each mode. However, the same questions were addressed. Responses were always recorded following each contact.

Although there were a few isolated exceptions and a few ambiguous responses, the clear reaction was one of lack of support for -- in some cases hostility toward -- and certainly no demand for governmental action leading to the establishment of a national economic crime center which would be concerned in

significant part with economic crime against business. Moreover, there were no expressions of intent to provide financial support to create or sustain such an entity.

#### Other Responses

In addition to business executives, we consulted other interested parties to this issue. Their reactions to the proposed center were mixed, but along rather predictable lines. Organized labor opposed the center on the grounds that it would principally benefit management and perpetuate an overemphasis on offenses by lower ranking employees while overlooking serious abuses by higher ranking management. Consultants, academicians, and association leaders generally favored the center as a means of creating new research and contract opportunities. Federal government personnel generally viewed the proposed center as unnecessary and duplicative of their existing efforts and plans.

The strongest supporters for the new center were those who had participated in the earlier reports recommending its creation. They were kept abreast of our findings at various points and were offered opportunities to make suggestions as to what additional avenues should be pursued. As such approaches were exhausted, it became abundantly clear that there simply was no widespread base of support for a national center to combat economic crime against business.

## ALTERNATIVE MEASURES

The mandate of the Attorney General implied a certain optimism and the presumption that a national center or institute was indicated. His direction to develop plans for a collaborative effort was undoubtedly influenced by the recommendations of previous reports on this subject. It was somewhat disappointing to realize, as we have discussed in the previous section, that such an entity is simply not feasible at this time.

Despite this conclusion, which resulted from extensive contacts with business, government, labor, and association executives, as well as a thorough review and analysis of reports and literature, the problem still remains and must be addressed.

It is important to note that, although the unique aspects of this project involved person to person contacts with top business executives across the country, all prior reports on this subject, as well as all of the appropriate literature, were reviewed.

Three major sources were used to identify the available literature on economic crime: the National Criminal Justice Reference Service (NCJRS), the National Technical Information Service (NTIS), and the Smithsonian Scientific Information Exchange (SSIE). Literature was also obtained from various federal and state agencies, such as the Department of Commerce, the state planning agencies, the Congressional Reference Service,

and the Department of Justice.

Nearly one thousand citations were identified from these sources. Items listed under the general category of white collar crime, as well as those entered under specific types of economic crime such as embezzlement, bribes and kickbacks, computer fraud, private security, check fraud, etc., were examined. Although it was impossible to abstract and analyze all the documents listed in the various sources, screening criteria were developed so that the most important documents and a representative sampling of the literature were carefully examined. In preparing abstracts and gathering the data, the emphasis was placed on the costs of economic crime, successful countermeasures for specific types of crime, and recommendations for future action.

As a result of our extensive contacts throughout the course of this project and the massive literature review, we have identified a number of alternatives that should be implemented.

#### Summary of Alternative Measures

As an alternative to establishing a national economic crime center, the Department of Justice should undertake the following measures:

- Interagency Working Group on White Collar Crime Against Business.

*The Attorney General should create a senior level interagency group to coordinate and maximize efforts, especially those at the federal level, in combatting economic crime against business.*

- Business Sector Input into Priorities.

*The Law Enforcement Assistance Administration (LEAA) should improve its internal structure for coordinating white collar crime projects and should provide a means to include the business sector in the shaping of funding priorities.*

- Economic Crime Literature Clearinghouse.

*The National Criminal Justice Reference Service (NCJRS), which is under the control of the Department of Justice through LEAA, should expand its collection of available literature on economic crime against business, establish additional distribution channels, and make this information readily available to business executives and security managers in the private sector.*

- Assessing the Crime Against Business Problem.

*The Department of Justice should develop more reliable mechanisms for assessing the nature, extent, and impact of crimes against business.*

- Education, Training, and Technical Assistance to the Private Sector.

*The Department of Justice should increase its involvement in providing education, training, and technical assistance to the private sector to assist in combatting white collar crime against business.*

- Training for Investigators, Prosecutors, and Judges.

*The Department of Justice should expand training programs to improve the skills and knowledge of investigators, prosecutors, and judges in dealing with cases involving white collar crime against business.*

These measures basically include most of the areas originally suggested as functions of the proposed center. Moreover, these

recommendations are capable of implementation by the Justice Department within its existing structure and resources.

At some point in the future it may be possible, given fruitful results of this modest effort, to secure private sector support for the establishment of a more extensive program to aid business to combat economic crime more effectively. In the meantime, we recommend these alternative measures that have the capability for immediate implementation.

## Interagency Working Group on White Collar Crime Against Business

*The Attorney General should create a senior level inter-agency group to coordinate and maximize efforts, especially those at the federal level, in combatting economic crime against business.*

### Background

There is an evident need to coordinate efforts, especially at the federal level, in combatting economic crime. The number of agencies that have an interest in this subject, along with the general operating autonomy of several separate entities, suggest the need for a formal coordinating medium. Moreover, this need was clearly amplified in the over 300 contacts that we made with executives in business, labor, trade associations, and academia throughout the course of this project.

Various efforts have been undertaken in the past by a number of federal agencies to provide some forms of coordination. It may be useful to review some of these activities, which are representative of the needs previously encountered and the efforts which have been made to meet these needs.

Interagency Committee on Transportation Security. In 1971, the Department of Transportation instituted a 14-member inter-agency body to gather facts, pool ideas, and coordinate plans of the several federal agencies having responsibilities in preventing cargo theft. In response to this federal initiative, the

private sector, under the sponsorship of the Transportation Association of America, established a National Cargo Security Council composed of 30 industry representatives. These two groups continue to coordinate views on national cargo security.

In 1973, the Department of Transportation also instituted a cooperative government-industry program to promote voluntary preventive measures within the private sector. In 1975, Executive Order 11836 formalized the voluntary National Cargo Security Program and assigned certain responsibilities to the Secretaries of Transportation and Treasury and to the Attorney General.

Interagency Committee to Assess the Impact of Crimes Against Business. In 1973, a coordination effort was initiated by the Department of Commerce with the formation of an "Interagency Committee . . ." The purpose of this Committee was to alleviate the problem of the lack of information and programs within the federal government and to improve coordination in order to better assess the economic impact of crimes against business. The Committee was composed of representatives from eight agencies: Department of Justice, Department of Commerce, Department of Transportation, Department of the Treasury, Federal Deposit Insurance Corporation, Federal Reserve Board, Securities and Exchange Commission, and Small Business Administration. Although the Committee was short lived, it did publish a useful document -- Federal Government Sources on Crimes Against Business, -- which helped to identify appropriate agencies and literature.

The Attorney General's White Collar Crime Coordinating Committee. Formed in 1975 within the Department of Justice, the Committee's mission was to design and develop an integrated departmental program on white collar crime. Chaired by the Deputy Attorney General, it was composed of the heads of the Criminal, Tax, Civil, and Antitrust Divisions; the head of the Office of Management and Finance; the Director of the FBI; the Administrator of LEAA; the Director of the Executive Office for United States Attorneys; the Director of the Office of Policy and Planning; and the Chairman of the Attorney General's Advisory Committee of U. S. Attorneys. This Committee set out to evaluate the Justice Department's enforcement strengths and weaknesses, to establish enforcement priorities, and to develop new programs and initiatives. The results of their initial efforts were reported in the Interim Report of the Attorney General's White Collar Crime Committee prepared by Edward Dauber and Mark Richard and in a memorandum prepared by Bruce Campbell and Mark Richard. The latter emphasized the need to devise and implement a comprehensive and coordinated white collar crime enforcement program.

As a result of this effort, several interagency task forces were established. One such task force, the Federal Fraud Enforcement Strategy, was designed to minimize "duplication of effort among U. S. Attorney's Offices." Subsequently, other agencies outside of the Department of Justice have expressed their interest in participating in this coordination activity.

LEAA White Collar Crime Coordinating Committee. In 1977, the Law Enforcement Assistance Administration (LEAA) established a White Collar Crime Coordinating Committee to ensure that a coordinated strategy would be followed for LEAA-funded white collar crime projects. This Committee was composed of representatives from various components of that agency. The objectives of the Committee were: to serve as the coordinating body for the various white collar crime efforts funded by LEAA; to plan, develop, and recommend long and short range strategies; to enhance the link between research and action programs; to make recommendations to the Administrator; and to represent the agency as an information source.

#### Composition of the Proposed Interagency Group

Considerable benefit can be derived by drawing upon work already done by other agencies in addition to those within the Department of Justice who have been involved in some aspects of combatting white collar crime against business. For example:

- The Department of Commerce has prepared publications on economic crime, conducted research on the extent of the problem, and for a while coordinated an Interagency Committee on Crimes Against Business. DOC has expressed support of, interest in, and willingness to cooperate with the Department of Justice in combatting white collar crime.
- The Small Business Administration has prepared publications on crimes against small businesses and initiated some original research into this area as part of a report to Congress. Their constituency is more receptive to assistance from government than are many large business firms. Furthermore, SBA expressed a willingness to continue research efforts to quantify the problem.

The Department of Transportation has a well-developed Cargo Theft Program. Their information and strategies should be examined for relevance to other types of economic crime.

There are other federal agencies that allocate funds and efforts to the economic crime problem. The scope of their interests, however, is often directed to areas other than business. For example, the Department of Defense concentrates on the security of government facilities, while the Department of Health, Education, and Welfare is primarily concerned with Medicare and Medicaid fraud. By confining the membership of the proposed interagency group to those primarily concerned with business, the Attorney General should ensure attention to the crimes against business problem. At a later date, when the effectiveness of this group has been determined, expansion into broader or more specific areas may be possible.

In order for the proposed Interagency Group to be effective, it must be composed of senior level personnel from the various agencies. Dauber and Richard point out that "the necessary agency commitment cannot be secured at the staff level, but can come only from the highest officials within an agency." (Interim Report of the Attorney General's White Collar Crime Committee, p. 132.) A similar view was expressed by a staff member from the Department of Commerce. When contacted about the DOC's Interagency Committee on Crimes Against Business, one of the staff commented that much of the work planned by this Committee was hampered because the positions of the members were not

sufficiently high to enable them to influence policy, priorities, or allocation of resources.

The previous success of the Attorney General in obtaining the cooperation of agencies in the prosecution of white collar crime has persuaded us of the need to use the same approach in launching this collaborative effort. Invitation by the Attorney General, perhaps supported by a letter from the President, would be a very effective method of obtaining cooperation.

#### Functions of the Proposed Interagency Group

The main purpose of the proposed Interagency Group would be to coordinate the resources, funds, and activities of the separate federal agencies in the area of white collar crime in order:

- to avoid overlapping efforts;
- to prioritize and maximize direction and effort;
- to identify and resolve any ambiguities and conflicts in jurisdiction; and
- to ensure that information resulting from each of the agencies' efforts is channeled to a centralized source for dissemination to the appropriate business community.

#### Liaison with Private Sector

The proposed Interagency Group should also maintain contact with those organizations within the private sector most concerned with the problem of crime against business. One such group, the Business Advisory Panel on White Collar Crime of the Chamber of

Commerce of the United States, has already shown their interest and willingness to cooperate with the Department's efforts. The Chamber of Commerce of the United States has been extremely helpful throughout the course of this Project and was responsible for calling its advisory panel on white collar crime together for a meeting with Attorney General Bell. Continued interaction between the proposed Interagency Group and the Chamber would increase the likelihood of success for the coordination effort and fulfill the directive of the Attorney General that a "collaborative effort between business and government be undertaken."

Since a considerable interest in workplace crime preventive programs has been indicated by the AFL-CIO Department of Community Services, the proposed Interagency Group should also interact with this and similar labor organizations to ensure appropriate communication and coordination.

In addition, the proposed Interagency Group needs to keep in close touch with organizations that have shown interest in this subject area. Organizations which have resources and interface capability that could be of considerable value to the proposed Interagency Group in providing information or in implementing programs include: the American Society for Industrial Security, the National Association of Attorneys General, the National District Attorneys Association, and the Council for Northeast Economic Action.

## Business Sector Input into Priorities

*The Law Enforcement Assistance Administration (LEAA) should improve its internal structure for coordinating white collar crime projects and should provide a means to include the business sector in the shaping of funding priorities.*

## LEAA Projects

LEAA has funded in the past, and continues to fund, several significant projects in the area of economic crime. We made site visits and met with the heads of several of these programs. Of those that we visited, the most impressive were:

- Battelle White Collar Crime Center -- principally involved in the training of white collar crime investigators and prosecutors, and the development of training materials.
- National District Attorneys Association -- coordinating and assisting a network of 66 local white collar crime prosecuting units.
- Yale Research Agreements Program -- 12 academic research projects on various white collar crime subjects.
- University of Minnesota -- in-depth study into causes and nature of theft by employees at all levels.
- University of Wisconsin -- study into the history of corporate illegalities and public response thereto.
- Stanford Research Institute -- documenting case histories of criminal conduct directed at computer systems or facilitated by the use of computers.

These and other white collar crime projects are funded and

monitored through several offices and divisions within LEAA, each generally operating independently of the other without significant programmatic coordination or agreement as to priorities.

#### Attempt to Coordinate Priorities

In order to provide the necessary coordination and setting of priorities, LEAA in 1977 established a White Collar Crime Coordinating Committee consisting of representatives from LEAA's National Institute of Law Enforcement and Criminal Justice (NILECJ), Office of Criminal Justice Programs (OCJP), National Criminal Justice Information and Statistics Service (NCJISS), and Office of Planning and Management (OPM). This Committee, which has met only a few times, prepared a summary of LEAA past and present white collar crime projects and began developing priorities for future white collar crime efforts. A one-day conference to discuss priorities was held in late 1977, involving LEAA staff and approximately ten other persons, most of whom were contractors under existing LEAA funded projects.

The priorities which emerged from this meeting included: infiltration of legitimate businesses by organized crime, commercial bribery and procurement fraud, insurance fraud, arson for profit, and investment fraud. Although these priorities are important, they do not necessarily include the priorities that would be suggested by persons directly involved in the day-to-day management of business enterprises. The following concerns were mentioned most often to us by business executives across the

country as possible areas for additional research and training: methods to screen employees without infringing upon privacy rights, the detection and prevention of computer abuse, and embezzlement.

Since businesses constitute one of the three principal categories of economic crime victims (along with government and consumers), serious and structured efforts should be undertaken to include business sector input into the process of determining economic crime research priorities. There is considerable precedent for the government to seek input in program development from those to be served by the program.

The White Collar Crime Coordinating Committee should establish mechanisms for periodically obtaining private sector input into its work. This might be accomplished through regular meetings with business executives and business organizations, through telephone and mail surveys, and through careful review of business publications. Business representation certainly should be included in any further conferences held to assess priorities.

## Economic Crime Literature Clearinghouse

*The National Criminal Justice Reference Service (NCJRS), which is under the control of the Department of Justice through LEAA, should expand its collection of available literature on economic crime against business, establish additional distribution channels, and make this information readily available to business executives and security managers in the private sector.*

## Current Information Accessibility and Usefulness

Throughout this project, business executives that we interviewed were almost unanimous in stating they would like more information on the economic crime problem. This general lack of knowledge by executives about the scope of the problem has a direct impact on their ability to utilize effective countermeasures. Among executives who were asked about some of the existing sources of information, only a few indicated an awareness of the NCJRS. Moreover, considerable doubt existed on their part about the availability of this service to the private sector.

In addition to the literature available at the Department of Justice through the NCJRS, other federal governmental sources of information about white collar crime against business include: the Library of Congress, the National Technical Information Service (Department of Commerce), the Smithsonian Science Information Exchange, and the Small Business Administration.

The commercial and academic sources of information, as well as governmental agencies at the state and local levels, are too

numerous to mention.

Problems relating to access and availability are encountered by anyone attempting to obtain information on economic crime. Apart from the myriad of key identifiers under which the literature may be cataloged or referenced, it is not always easy to secure the document itself or a copy, once the material is identified. Moreover, access to the nearly 1000 items of existing literature that we have identified would require contact with all of the sources identified previously, since no single repository exists for all of this literature.

The lack of a comprehensive listing and a single source of published material on economic crime clearly demonstrates the need for a centralized repository. Further, the relative inaccessibility of the literature suggests that the present method for obtaining needed information on white collar crime against business is not adapted to the needs of the private sector.

In addition, although much of the published literature contains information useful to business managers, security personnel, and accountants, the material is not always in a form that would be beneficial to the general business community. For example, Sandia Laboratories recently prepared a series of handbooks on physical security for the Department of Energy. In their present form, these manuals are so technical that they are virtually useless, either to business executives, to security practitioners, or to the general public. The number of such

studies prepared with government funds is great and their contents valuable. Unless this material is presented in a language and format useful to the broader community, it will never reach the audience that could most benefit from it.

### Implementation Methodology

Information Collection. To maximize the resources already available in the published literature and to ensure that new information on white collar crime be made as beneficial as possible, an active collection must be made of the published and unpublished literature. The present NCJRS acquisitions system was examined for its potential for expansion into a comprehensive collection effort. At present, NCJRS solicits some material from outside sources, subscribes to 200 periodicals, and attempts to obtain as many documents as possible. The effort, however, is basically passive; people send material to NCJRS for listing and distribution.

The acquisition effort would be improved if an active search mode were instituted at NCJRS. This function would ensure that regular searches for relevant literature on economic crime be made to discover appropriate material for acquisitioners. This effort could be augmented by establishing liaison with federal agencies through the proposed Senior Level Interagency Group to secure copies of appropriate governmental materials.

Screening and Storage. Once a comprehensive listing of

available literature on white collar crime against business has been developed, documents that are most relevant and important to the research, training, and technical assistance efforts should be selected for abstracting, indexing, and storage within the NCJRS system. This base would become the source for all of the published literature on economic crime and could be easily accessed by potential users in the private sector.

Information Dissemination. At present, the material stored at NCJRS is available free of charge to both the public and private sectors. Private sector requests range from 30 to 100 requests per day, with the majority coming from students. A typical search conducted at NCJRS results in the receipt of a series of abstracts describing the contents of the documents identified, provided the documents are in the literature base at NCJRS. While this is a valuable service, some refinements are needed to make this service more useful to executives and security managers in the private sector on an ongoing basis.

Efforts should be undertaken by NCJRS, with the assistance of an organization that has the capability for interface with the vast myriad of business firms in this country to provide on a regular basis:

- Bibliographies of material on white collar crime
- Digests and analysis of such literature

- Ongoing surveys of a representative sampling of firms for identification of needs that certain literature items would satisfy

This interface function between the government and the private sector, along with expansion of the NCJRS activity, is designed to increase the concentration of literature on white collar crime against business, its availability, ease of access, and appropriate utility by the business community.

Since the use of the literature by the private sector is just one phase of improved communications between the federal government and the private sector, elsewhere in this report we have noted other communications needs. We think that the pilot ventures recommended in that regard should be employed in this effort as well.

## Assessing the Crime Against Business Problem

*The Department of Justice should develop more reliable mechanisms for assessing the nature, extent, and impact of crimes against business.*

Prior Estimates. We reviewed numerous publications containing estimates of the direct costs of crime against business. However, many of the statistics quoted were without sources or references, and they were often at variance with one another. Review of available material made it clear that, while many persons believe that white collar crime against business is above acceptable levels, we do not have accurate measures of its true costs.

The statistics quoted in the literature are usually taken from one of five national studies undertaken since 1969:

- Crimes Against Small Business, A report of the Small Business Administration, 1969
- The Economic Impact of Crimes Against Business, U.S. Department of Commerce, 1972 (Reissued in 1974 and 1976)
- Handbook on White Collar Crime, Chamber of Commerce of the United States, 1974
- Cost of Crime, A release of the Joint Economic Committee, Congress of the United States, 1976
- Background, Findings, and Recommendations, Crimes Against Business Project, American Management Association, 1977

These reports were analyzed by staff\* and their findings

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\*These tables and analyses were prepared by Hallcrest Systems, Inc.

are exhibited in Table 1, "Estimated Costs of Crime Against Business by Crime" and Table 2, "Estimated Costs of Crime Against Business by Business Sector."

Comparing the several estimates is difficult. As appropriately stated in the U.S. Department of Commerce report, The Cost of Crimes Against Business,

the most serious difficulty associated with analyzing the impact of crimes against business continues to be the sparseness and sporadic nature of the data available. Figures are seldom based on comparable definitions or time periods, and many data gaps exist.

Also, the American Bar Association's committees on economic crimes found, "The data which have been gathered are of 'questionable validity' because there are no uniform standards for collecting economic crime data among the relevant agencies." And the Congressional Research Service concluded that,

There is no single, centralized compilation of white-collar crime statistics similar to the statistics on street crime compiled by the FBI in its annual Uniform Crime Reports. Such statistics as are available are generally located in relatively inaccessible reports.

Another group commenting on the available data, the AMA, found that, "there is little or no hard data on losses to business due to nonviolent crime, either at the macro or micro levels." For example, according to the AMA Crimes Against Business Project,

TABLE 1

## ESTIMATED COSTS OF CRIME AGAINST BUSINESS BY CRIME

TYPE OF CRIME	SOURCES (\$ Billions*)			
	SMALL BUSINESS ADMIN. (1967-68)	CHAMBER OF COMMERCE OF THE U.S. (1974)	AMERICAN MANAGEMENT ASSOCIATIONS (1975)	JOINT ECONOMIC COMMITTEE (1976)
Arson			1.3	
Bankruptcy Fraud		0.08		.103
Bribery, Kickbacks, Payoffs		3.0	3.5 - 10.0	3.85
Burglary	.958		2.5	
Check Fraud	.316	1.0	1.0 - 2.0	1.12
Computer-related		0.10		.129
Consumer Fraud		21.00		27.0
Credit Card Fraud		0.1	0.5	.500
Embezzlement		3.0	4.0	3.86
Insurance Fraud		2.0	2.0	2.50
Pilferage/Employee Theft	.381	4.0	5.0 - 10.0	4.84
Robbery	.077			
Securities Theft/ Fraud		4.0	5.0	.291
Shoplifting	.504		2.0	
Vandalism	.813		2.5	
Receiving Stolen Property		3.50		
TOTAL	\$ 3.05	\$ 41.7	\$ 29.3 - 41.8	\$ 44.2

\* (Total cost estimates may not be exact due to rounding.)

TABLE 2

## U.S. DEPARTMENT OF COMMERCE

## ESTIMATED COSTS OF CRIME AGAINST BUSINESS BY BUSINESS SECTOR

(\$ Billions)

<u>BUSINESS SECTORS</u>	<u>1971</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Retailing	\$ 4.8	\$ 5.2	\$ 5.8	\$ 6.5
Manufacturing	1.8	2.6	2.8	3.2
Wholesaling	1.4	1.8	2.1	2.4
Services	2.7	3.2	3.5	4.3
Transportation	1.5	1.7	1.9	2.3
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL*	\$ 12.2	\$ 14.5	\$ 16.1	\$ 17.7

\* The Commerce Department also estimated the cost of arson and the costs of business crime prevention. When including these costs, the total crime losses to business were, in billions, for 1971 — \$15.7; 1973 — \$18.3; 1974 — \$20.3; and 1975 — \$23.6.

even the relative importance of employee theft versus shoplifting as contributors to retail shrinkage is not known by the most sophisticated stores.

A review of Table 1 shows that only two of the listed crimes were considered by each of the four groups and that the number of crimes considered ranged from six to eleven. One of the reasons for this is that the goals or objectives of each study were different, thereby resulting in the estimation of different specific crimes. Therefore comparison of the total estimates is not very meaningful. One can only review the trend for each type of crime.

A review of the AMA estimates in Table 1 further shows the unreliability of the existing cost estimates. The range equals or exceeds 100% in three of their estimates. That alone illustrates the uncertainty and vagueness of the cost estimates of business crime.

A comparison of the SBA estimate for all business losses in 1967-68 of \$3 billion with the U.S. Commerce Department's estimate for all crime losses to retailing alone in 1971 of \$4.8 billion is another illustration of the lack of consistency in calculating the costs of crimes against business.

Table 2 presents the Department of Commerce's estimates of crime against business by business sector. Included in these estimates are losses due to burglary, robbery, vandalism, shoplifting, employee theft, bad checks, and credit card fraud.

However, this report does not provide a breakdown by crime nor does it describe a methodology for its estimates. The differences between the Department of Commerce estimates and those of the Chamber of Commerce and the AMA can be primarily attributed to the inclusion of different crimes in the data collection effort.

The following quotation, taken from the U. S. Chamber of Commerce's Handbook on White Collar Crime, is illustrative of the techniques used in developing such estimates.

The 'not less than \$40-billion' estimate does not pretend to be the result of a rigorous, statistically valid survey and should not be regarded as 'the cost of white-collar crime.' No one has ever really computed even a reasonably accurate figure. The estimate cited here is based on (1) previous estimates by responsible authorities (even their figures for a given kind of crime may differ by many billions), (2) inferences drawn from reasonably accurate loss ratios, and (3) the evaluation and adjustment of (1) and (2) in light of research for this Handbook.

The costs of white collar crime projected by the Joint Economic Committee are, with two exceptions, "based on data presented in White Collar Crime, Chamber of Commerce of the United States, 1974, multiplied by the rate of inflation 1974-1976 inclusive." The American Management Associations' (AMA) "best judgment estimates" were drawn from:

the Chamber of Commerce of the United States, the U. S. Department of Commerce, the American Mutual Insurance Alliance, the National Retail Merchants Association, and various private communications. Figures are for 1975 and in some cases were arrived

at by extrapolation of trends and allowances for inflation. They are extremely tentative figures but do bring home the gravity of the problem. . . .  
[Emphasis added.]

In addition to the estimates of actual dollar losses resulting from crime, there are other costs. For example, in terms of insurance fraud, James F. Ahern, Director of the Insurance Crime Prevention Institute, recently stated that,

it is difficult to estimate the annual cost of insurance fraud in 1977 at anywhere below the \$3 billion mark, and this is simply the direct cost. The increased personnel to handle false claims and the costs of security combine with those fraudulent claim dollars to increase the average premium an estimated 15 to 20 percent.

Other potentially measurable costs of crime against business, for which no good estimates were found, include the cost of crime insurance, business crime prevention, internal audit activities, and public criminal justice expenditures related to economic crime.

Need for Better Data. This review of available crime costs data reveals clearly that we simply do not know the cost of crime against business. The literature yields only estimates which to a significant degree are based upon earlier estimates and adjusted for inflation. What we do know is that more valid data are needed if public and private organizations are to allocate their resources effectively.

We find this need particularly acute in that the business

executives, and many other persons with whom we conferred in the private sector, by and large did not believe that the problem was of such magnitude as to justify its being given priority treatment. The overwhelming majority of business executives expressed the belief that their crime problems were rather minimal, on the decline, or adequately controlled by current private security efforts. By and large, they felt that significant additional public or private resources directed at the problem were probably not cost effective.

If this is true, perhaps the Department of Justice and the Attorney General should limit the white collar crime priority to the other two major categories of victims, namely fraud against government and consumer fraud.

It is possible, however, that the business community grossly underestimates its economic crime problem. If that is the case, the problem is compounded and the need for accurate data is even more acute. If the business community is being victimized by economic crime without its knowledge, the war against crime is deprived of its first-line defense, protective measures on the part of the most immediate victim.

Inadequate data not only prevents informed private decisions, it also prevents the ultimate victim of most social ills -- the public at large -- from having a basis for the forming of opinion and ultimately, public policy.

Although the need for accurate data for both public policy

and private planning purposes is apparent, it is not clear that significantly improved methods may in fact be obtained. A major difficulty in making overall estimates is the general inadequacy of crime loss data at the company level. We were originally skeptical and sometimes incredulous, but ultimately became convinced that many, and perhaps most, businesses of all sizes and types do not know what their approximate crime losses are. Sometimes this is due to a lack of technical ability to determine crime losses. But all too often, business executives decide that it has simply not been "cost effective" to employ available techniques to isolate crime related losses from other losses.

In addition to general inadequacies in the maintenance of crime-related loss statistics at the corporate level, estimators face the additional problem of obtaining available and accurate information from businesses. Collections by government entities are frequently viewed with apprehension and generally uninformative responses are given. We frequently encountered expressions of dissatisfaction relative to government imposed record maintenance and reporting requirements. Private efforts to obtain data are simply ignored. Survey questionnaires rarely produce an adequate response.

#### Obtaining Better Data

Improved cooperation between the private sector and the public sector is indispensable if more accurate crime cost data are to be secured. Consequently, attention must be given to the

legitimate concerns of private business in supplying available data. Meaningful assurances must be given to business executives who voluntarily participate in supplying data, that their corporate public image will not be unnecessarily embarrassed. Moreover, they must be assured that the supplying of data will not result in compulsory record keeping and regulation.

To approach this problem, the Department of Justice should organize a team consisting not only of researchers who are capable of organizing and interpreting such data, but also individuals, and perhaps organizations, having special access to corporate data and the confidence of corporate management. One organization which might be of assistance is the American Society for Industrial Security (ASIS), the principal national organization of private security professionals. ASIS members probably have the greatest access to data on crime related losses in individual companies. Although the approval of top management will frequently be necessary to obtain such data, assistance from the security personnel in any data collection process would be a significant step in obtaining better data.

It might also be preferable to employ a pilot project to develop techniques and approaches for more accurately gathering business crime data. The team could include some organizations representing a segment of private industry, such as a number of trade organizations, or perhaps an organization of business executives having a defined geographical jurisdiction.

The University of Minnesota employee theft project was facilitated by the local Chamber of Commerce, which assisted in obtaining the cooperation of the executives of the ten companies involved in this LEAA funded project.

Perhaps an organization having a geographical base, such as the Council for Northeast Economic Action, might be used. This organization, based in Boston, is a group of business and civic leaders created to assist the business community of New England, New York, Pennsylvania, and New Jersey, in taking a more forceful and more proactive role in public policy development.

The Council demonstrated for the National Economic Crime Project their ability to obtain data from private industry by conducting a mail survey of major manufacturing firms in their area. The questionnaire inquired as to the companies' views on the extent of their problems with crime against business, their methods for coping with economic crime, their willingness to support a national economic crime center, and other related questions.

These responses provided data which are quite useful to this project. These firms estimated their overall crime losses at 5% of their manufacturing costs. If this estimate is anywhere near accurate, national crime against business losses far exceed the \$40 billion estimate receiving current attention.

No new effort to quantify the cost of crime against business

should be launched without a realization that it might not be possible to improve substantially upon prior estimates. However, none of the prior efforts was undertaken by a team consisting of senior corporate executives, private security personnel, and competent researchers. The need to improve on the data base is worth such an effort, at least on a pilot basis.

## Education, Training and Technical Assistance to the Private Sector

*The Department of Justice should increase its involvement in providing education, training, and technical assistance to the private sector to assist in combatting white collar crime against business.*

### Background

The purpose of this recommendation is to encourage the Department of Justice to assist business firms in combatting economic crime by providing education, training, and technical assistance in the private sector. The need for such assistance was clearly indicated by our contacts with business executives, association officials, academicians, and government officials. Moreover, our analysis of the literature and previous reports submitted to the Department of Justice tends to reinforce this conclusion.

Representatives from all types and sizes of industry and from various geographic areas expressed a need for improvement in their prevention efforts, especially in the area of security techniques and strategies.

Existing public sector resources are neither properly oriented nor adequately staffed to respond to this pressing need. Current crime prevention programs are largely directed toward the individual citizen and homeowner and primarily aimed

at reducing street crime.

Apart from the needs directly expressed through the wide range of contacts that we made, an analysis of business victimization information further substantiates the need for increased government involvement in improving business' prevention methods.

This report has already discussed the various estimates which have been made of the direct costs to business of crimes directed against it. Also, estimates have been made that American business firms devote a minimum of \$6 billion annually for self-protection and crime prevention. Other costs, in addition to security measures, that go beyond the loss of assets are:

- increased cost of crime insurance,
- cost of internal auditing,
- legal costs, and
- reduced return to investors and loss of equity.

Collectively these costs convey the magnitude of the problem and the need for improvement in preventative measures and security techniques.

Several reports that we reviewed also substantiated the need for improvement in business preventative techniques and government support of these efforts.

- The Rand Report on Private Security recommended the establishment of more effective training and controls for private police (i.e., licensing, registration, and testing) in order to improve

the prevention capabilities of the private sector security forces. .

- The AMA Crimes Against Business report cited the lack of adequate training of private security personnel as one of the prime reasons for continued business victimization.
- The National Advisory Council to the Commission on Criminal Justice Standards and Goals in its Private Security report cited ineffective performance of security personnel as the major cause of business victimization. The report further recommended improvement in training and selection of private security personnel, development of technology and procedures for crime prevention systems, and development of a national private security institute with LEAA funding as being necessary to combat crimes against business.
- The Private Security Advisory Council in its report on Law Enforcement and Private Security also indicated a need for improvement in the crime prevention capability of private security and the development of programs and policies for private protection services.

Although these studies and reports tend to emphasize the need for improved capability of the patrol-guard elements in the private security area -- and this still is a pressing need -- our observations indicate a far more expansive effort is needed. This effort must reach business executives and security managers who must plan, initiate, and evaluate security strategies and measures within their respective firms and industries.

#### Types of Assistance Needed

The Department of Justice should provide education, training, and technical assistance to aid business executives in preventing and detecting economic crime. This assistance should relate directly to the need for more effective prevention strat-

egies and security techniques. This should be accomplished in two general thrusts:

- by providing seminars, counseling, advisory services, crime prevention clinics, and technical information to business; and
- by providing incentives to select colleges and universities to establish security management degree programs.

The Department of Justice should model its programs of assistance after those of the Department of Commerce and the Small Business Administration. The Department of Commerce currently offers technical assistance to businesses through its Domestic and International Business Administration and the Office of Minority Business Enterprise. The Domestic and International Business Administration is authorized to provide advisory services and counseling and to disseminate technical information. In order to provide those services, it holds domestic business workshops, conferences, and seminars to "promote U. S. economic growth ... and enhance the competitive position of U. S. industry in the marketplace." Through workshops, conferences, and seminars the DIBA contributes to the effort against economic crime.

The Office of Minority Business Enterprise contributes to the effort of minority firms against economic crime by providing project grants, research grants, advisory services, counseling, and technical information.

The Small Business Administration makes technical assistance

available to small businesses by providing advisory services, counseling, training, and dissemination of technical information concerning economic crime prevention. An objective of the SBA is to help small businesses improve their skills in effective management and operations. By assisting businesses in their crime prevention efforts, SBA fulfills its objective to help small businesses manage and operate more efficiently. The Department of Justice's programs to assist business should be similar in form and coordinated with those of the Department of Commerce and the Small Business Administration.

The Department of Justice should further assist businesses in their crime prevention efforts by providing grant incentives to selected colleges and universities to establish and operate security management degree programs. By funding such programs, the Department of Justice will be contributing to the development of a pool of professional security managers. Ultimately the presence of such professionals will greatly improve the quality of security operations in the private sector and will reduce the impact of economic crime against business.

These security management degree programs should differ from existing security training programs in that they should be aimed at developing superior overall capabilities in people who will eventually occupy top management positions. The development of security management degree programs will respond to the need expressed by business executives for an improved management

security policy and for better qualified professional security managers.

#### The Role of LEAA

The Law Enforcement Assistance Administration occupies a unique and experienced position regarding crime reduction efforts. This agency is ideally suited to provide the overall coordination and supervision to implement this recommendation.

The National Crime Prevention Institute at the University of Louisville's School of Police Administration has been funded for a number of years by LEAA. This resource should be expanded to cover the increased scope envisioned in this recommendation. For example, a field program that would reach a number of major business and industrial areas throughout the country should be developed and implemented by NCPI to eliminate the popular objection by business executives that they have no time to travel to distant training programs.

Other LEAA funded products could be of value. For example, training seminars could be structured around the excellent text recently developed by the MITRE Corporation entitled Security and the Small Business Retailer. The NCPI could also implement a capability to respond by phone or mail to specific requests of business executives.

In addition, LEAA should provide suitable contractors who are capable of providing on-site assistance similar to that

offered by LEAA to police agencies in the public sector. Many small business firms lack the incentive and the technical know-how to effectively implement programs designed to eliminate crimes against business. On-site assistance coupled with some periodic review could be of great practical benefit.

The infusion of a broad program of education, training, and technical assistance into the private sector has the potential for producing tangible results in the overall effort to reduce white collar crime against business.

## Training for Investigators, Prosecutors, and Judges

*The Department of Justice should expand training programs to improve the skills and knowledge of investigators, prosecutors, and judges in dealing with cases involving white collar crime against business.*

### Background

Because little "hard" data about economic crime are available, it is difficult to state with certainty how effective the criminal justice process is in this area. Despite this lack, the need for more effective prosecution of white collar crime against business has been expressed by all parties who are affected by the problem. Businessmen from all types and sizes of firms across the country expressed their disillusionment with the operation of the criminal justice system in general, and in economic crime control in particular.

Interviews with businessmen, prosecutors, and investigators point to the difficulties inherent in successfully investigating and prosecuting economic crime. The use of cunning, guile, and deceit by perpetrators who are in positions of trust within the firm makes discovery very difficult. Even when such acts are detected, establishing sufficient evidence to bring about indictment, prosecution, and conviction requires detailed investigation and lengthy case preparation by trained specialists.

These factors were readily cited by many of the business executives and prosecutors who were interviewed during the

course of this project. All agreed that investigation and prosecution of white collar crime against business must be improved if any reduction in this crime area is to be realized. The way to achieve this goal, they reasoned, was to augment the skills of investigators and prosecutors so that these officers could deal more effectively with cases involving this type of crime.

In a parallel vein, considerable frustration was voiced by investigators, prosecutors, and victims of crimes against business regarding the disposition of cases that eventually reach the adjudication stage. The disparity and inconsistency in approach by judges in dealing with convicted offenders of white collar crimes against business has left prosecutors and victims distrustful of the system. Moreover, many security managers feel that the extensive effort necessary to see cases through the criminal justice system is simply not cost effective. This view is greatly reinforced by their perception that proper and meaningful adjudication is absent in a majority of cases.

As a result, business firms tend to be reluctant to report and prosecute offenders; investigators and prosecutors tend to devote more effort to cases likely to produce effective results; and the basic element of deterrence is given short shrift in the process of handling cases involving white collar crimes against business.

## Methods of Addressing the Problem

Several programs currently underway through LEAA funding are aimed at reducing this problem. Although these programs have resulted from a correct assessment of needs, the overall effort is insufficient to impact significantly on the problem. A major expansion and refinement of these programs is indicated.

National District Attorney's Association Economic Crime Units. The economic crime units of the National District Attorney's Association have been successful in establishing the need for specialized staffs in prosecutors offices for handling economic crime cases. Arthur D. Little Company, in its report on the NDAA project, states:

Based upon our assessment of the experience of existing economic crime units, we conclude that the units have clearly demonstrated their value, and that replication of the concept in other jurisdictions is both warranted and highly desirable. (Evaluation of the National District Attorney's Association, Arthur D. Little, Inc., 1977, p. 55)

The report notes that the units have achieved a 97% conviction rate in cases brought to trial and that fines assessed have greatly exceeded the costs of the units.

At the present time, 66 economic crime units have been established in connection with the NDAA Economic Crime Project. The concept of regionalization of future units should be considered. Arthur D. Little Company stated in its report that the economic crime unit concept was applicable to all jurisdictions

with populations in excess of 100,000. The establishment of regional units would permit jurisdictions with populations of less than 100,000 to enjoy the benefits of the unit. Activities that are not cost-effective for a jurisdiction with a population of 25,000 could be effective for several jurisdictions with a total population of over 100,000, if the jurisdictions worked in concert.

We visited several of the NDAA units in various jurisdictions throughout the country and were most impressed with their efforts. Although following the regular coordination strategies and meetings with other prosecutor's units within the NDAA system, a unique approach utilized by the Harris County, Houston, Texas unit is worthy of consideration as a universal augmentation strategy for all units to follow. The Houston unit has organized in its jurisdiction various advisory committees. Each committee is composed of security directors of firms within that jurisdiction and within a particular industry. For example, the security directors of all of the major banking firms comprise one such committee. Others are being formed for the petro-chemical industry and the retail group. Other similar compositions are scheduled. In this mode, particular prevention strategies suitable for one industry can be developed. In addition, the thrust of the NDAA project can be augmented through the medium of advisory committees of local security executives in an industry-by-industry fashion to achieve greater concentration of effort.

Judicial Training. The Austin Sarat Project of the Yale Research Agreements Program is studying processing and sentencing procedures of federal judges. The American Academy of Judicial Education provides judicial training programs. These existing resources should be tapped to provide a basis for training and education to improve the adjudication process.

Investigator/Auditor Training. The need for trained investigators with auditing skills was expressed to us by many businessmen and prosecutors. The use of investigators with auditing skills is considered by prosecutors to be necessary for any successful prosecution of economic crime. The white collar crime unit of the Los Angeles District Attorney's Office consists of twenty attorneys and nine auditors. The Cook County, Illinois State's Attorneys Office has five attorneys, nine investigators, and six accountants. The NDAA project consistently tries to encourage this type of specialization and supplies on-site assistance to help prosecutors develop this type of skill.

Several programs which train investigators in using auditing techniques to uncover organized crime operations are currently being funded by LEAA. The Battelle White Collar Crime Institute, the Western Regional Program of the California Department of Justice, and the Dade County Public Safety Department's Organized Crime Institute have ongoing programs which have greatly benefited the prosecution of economic crime. The Department should

encourage the continuation and expansion of these programs and the use of investigators with auditing skills in the investigation and prosecution of white collar crime against business.

## EPILOGUE

Some final notes need to be made, some points repeated, and a general emphasis established.

The uniqueness of this effort should not go unnoticed. As far as we can determine, the Department of Justice has never before made such an effort to reach out and "take the pulse" of the business community before launching some effort that would have involved that constituency in a collaborative venture. Most of the business executives that we contacted expressed surprise and approval of this approach. These same business executives made it clear that they would welcome and appreciate increased dialogue with the federal government, or for that matter, all government matters which might involve their businesses.

Initially we, as well as others, kept referring to "the business community" as if it were a single constituency, one with similar problems and needs, and thus capable of benefiting from a single response or application. Not so! We quickly learned that there are many business communities, many varied and separate industries, many different interests, and many diversified problem areas. No one effort or application can reach and benefit all. The varied measures we have set forth recognize this situation and thus have the best potential for success across this vast scope of diverse business.

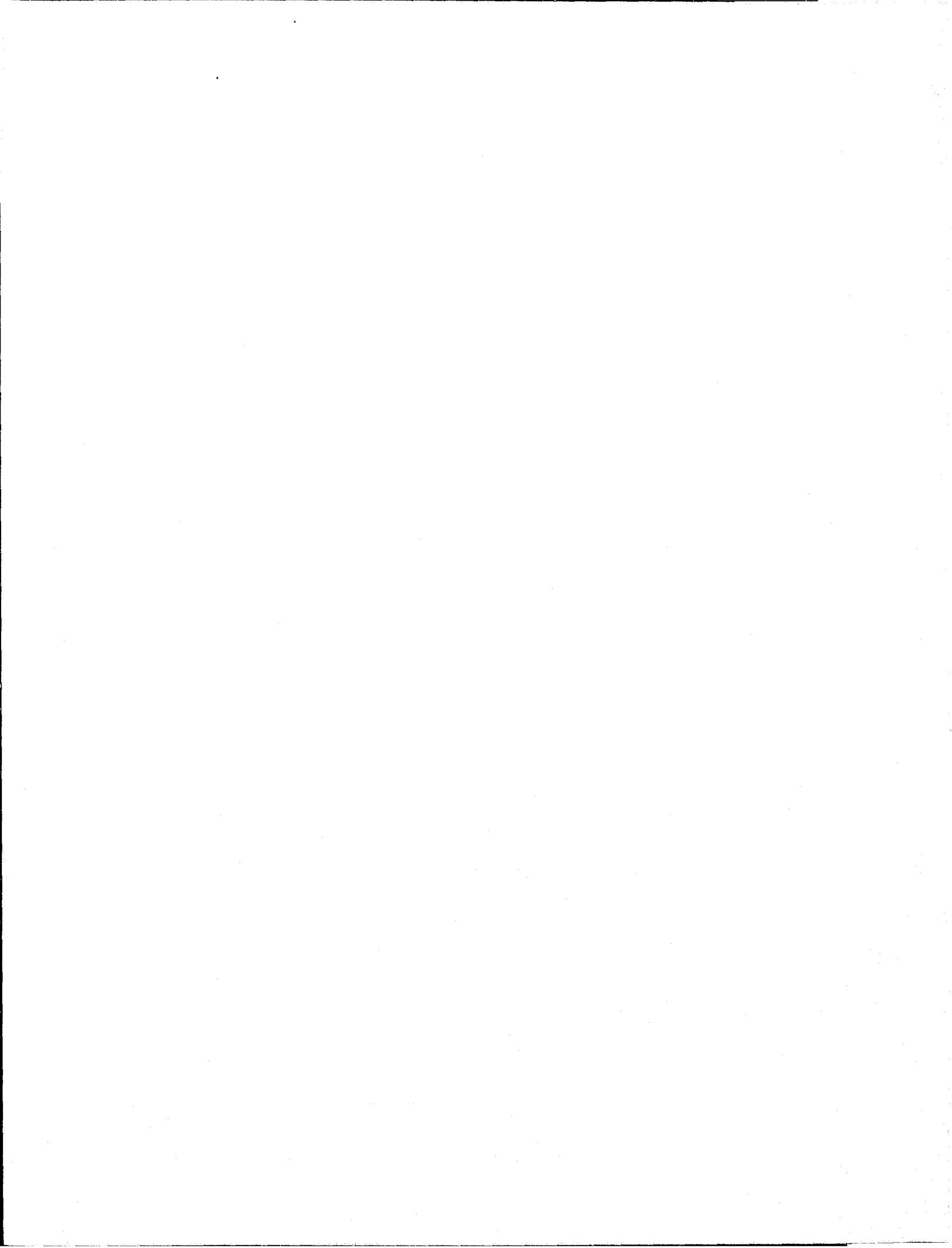
Undoubtedly, many will not agree. Vested interests, the

need of some to reaffirm previous efforts that concluded otherwise, and the natural reaction of some who may view trying to improve what we have rather than create something new as a backward step will take its toll on these modest findings and recommendations.

Our effort will speak for itself: over 300 direct contacts with top leaders in all areas of business, labor, and academia; nearly 1,000 pieces of literature reviewed; and a careful examination of all previous studies in the last 10 years that addressed this subject.

Business executives have made their point. They want help from the government, but decline a partnership; they want to see the system of criminal justice improved as it relates to crime against business; and they want a voice in helping shape government programs that have an impact on economic crime.

Increased coordination, improved data, direct access to information, and various types of training will help considerably. But these efforts must not be undertaken in isolation. The voice of the private sector must be employed if any benefits are to be realized.



**END**