THE 2013 MARQUET REPORT ON EMBEZZLEMENT

A WHITE COLLAR FRAUD
STUDY OF MAJOR EMBEZZLEMENT
CASES ACTIVE IN THE U.S. IN 2013

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ACKNOWLEDGEMENTS & ABOUT THE REPORT

The 2013 Marquet Report on Embezzlement is our sixth annual white collar fraud study on major embezzlement cases in the United States. Our intent with these annual studies has been to identify the characteristics and trends from the cases we identify each year and to draw reasonable conclusions based upon a quantitative analysis of the data extracted from those cases. We also include in this report some select statistics based upon an aggregation of all of our data compiled over six years. *The 2013 Marquet Report on Embezzlement* has been significantly delayed as a result of an improvement and refinement of our data collection efforts as well as the intrusion of our day job as a premier boutique private investigations and litigation support firm – which has been unusually busy this year – for which we apologize to all of our faithful readers.

We would like to specifically acknowledge Dr. Kelly Richmond Pope, associate professor at the School of Accountancy and MIS at DePaul University, along with her graduate-level forensic accounting class, *Principles of Forensic Accounting*. Dr. Pope and her 40 odd graduate students worked tirelessly this past semester to help us gather the data necessary to publish *The 2013 Marquet Report on Embezzlement*. Without Dr. Pope and her students' assistance, we may not have been able to produce this year's report. Dr. Pope, an expert in white collar fraud in her own right, is the creator of the award winning educational white-collar crime documentary *Crossing the Line: Ordinary People Committing Extraordinary Crime* and the upcoming documentary *All the Queen's Horses* which chronicles the major embezzlement case involving Rita Crundwell and the town of Dixon, Illinois.[1] I would also like to thank my long-time colleague, John Verna, Chairman of the Center for Strategic Business Integrity,[2] for his encouragement on this project and assistance in editing portions of this report.

The data used in *The 2013 Marquet Report on Embezzlement* is derived from an examination of individual cases of employee theft in the United States in which at least $100,000 was alleged to have been misappropriated. The cases themselves as well as the case data, is based upon public records and media coverage, including press release information from various law enforcement authorities and court records. The cases included in this year's report either became publicly known or were active in the judiciary process during the 2013 calendar year (those cases in which an arrest, charge, indictment, criminal information, civil complaint, plea agreement, sentencing or other significant event occurred which revealed the existence of the scheme to the public). We did not include cases in the 2013 study that have already been included in our prior studies.

The 2013 Marquet Report on Embezzlement analyzes 554 specific cases – the highest number we have seen to date and an increase of nearly 5 percent over 2012 (which identified and analyzed 528 cases). This years' report includes another very large embezzlement which could be considered as one of the largest embezzlements in US history.

[1] http://driehaus.depaul.edu/faculty-and-staff/faculty/Pages/pope-kelly-richmond.aspx
[2] www.centersbi.com

Further, losses from the 554 cases total nearly $595 million in employee theft. It should be noted that we included 8 cases in the 2013 study which were thefts of just under $100,000, since we felt they were statistically significant. The $100,000 threshold is not arbitrary; we draw the line here because 1) cases of that magnitude are most often going to be reported and prosecuted and 2) it would be impossible to gather meaningful data on all cases below such a threshold. Many small cases never see the light of day.

As always, to the extent available, we compiled and reviewed objective data originating from the public domain on each case included in the study. We note also that some of the cases analyzed are currently active in legal proceedings wherein the accused perpetrators have not yet been the subject of a final adjudication. *The 2013 Marquet Report on Embezzlement* includes data from those cases in which we have a high degree of confidence in the accuracy of the information.

The 2013 Marquet Report on Embezzlement includes a detailed analysis for a number of broad categories related to major employee theft cases in the US, including:

- Characteristics of the Schemes
- Characteristics of the Perpetrators
- Characteristics of the Victim Organizations
- Judicial & Other Consequences
- Appendices: Preventive Measures & Investigative Response

In the *Characteristics of the Schemes* section, we examined the magnitude of the theft, the duration of the scheme, the primary scheme methodology and whether a given scheme was accomplished by a sole perpetrator or by a conspiracy of individuals.

In *Characteristics of the Perpetrators*, we examined their age, gender, position held within the victim organization, apparent motivating factors, and whether they had prior criminal histories.

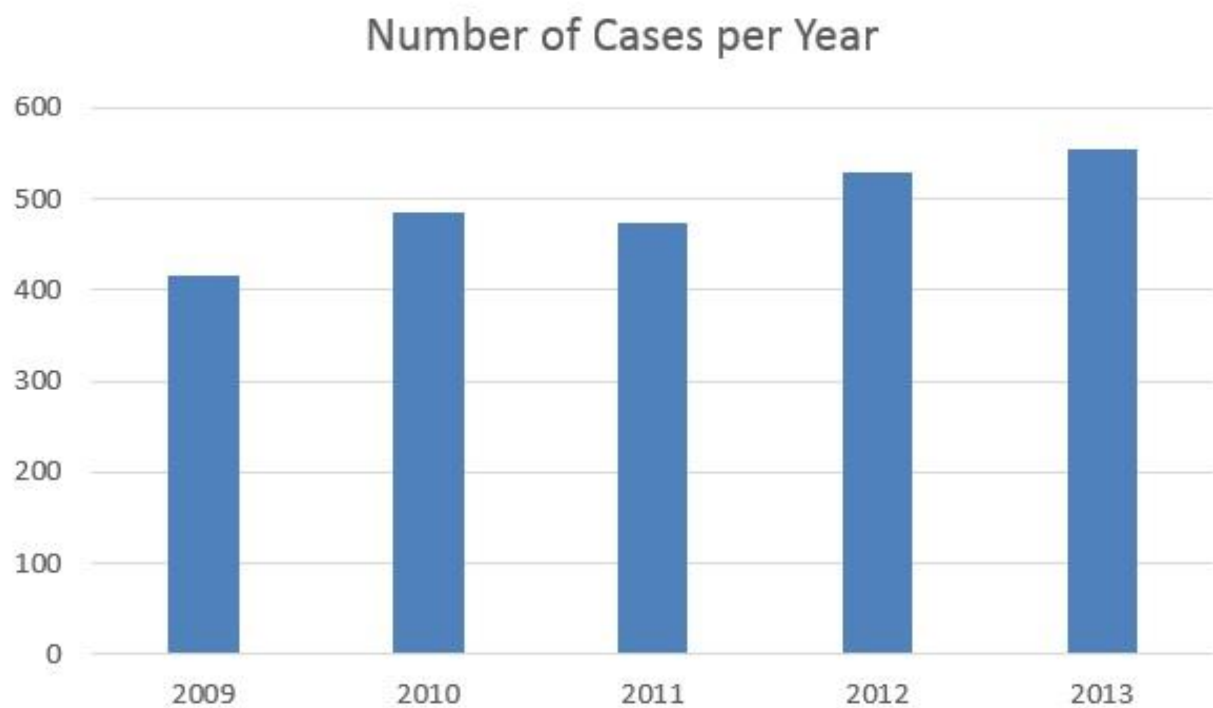
In addition, we examined the *Characteristics of the Victim Organization*, including industry classification and geographic locale. This section includes a quantitative ranking of the respective embezzlement risk levels for each US State, based upon the data, using an equation we define as the Embezzlement Propensity Factor or EPF.

We also conducted an analysis of the sentencing of perpetrators in an effort to develop any statistically relevant conclusions under the heading, *Judicial Consequences*. Finally, we included appendixes with some common sense preventive measures and investigative response advice.

SUMMARY OF FINDINGS

Highlights & Conclusions from the 2013 Study

2013 was a gangbuster year for embezzlement in the United States, exceeding even last year's previous record pace, which we had called a blockbuster of a year for embezzlement. In this report, we identified, researched and analyzed the details of 554 major embezzlement cases in the US, active in 2013. This figure represents a rate of more than 10 ½ cases per week – a staggering amount. It also represents a nearly 5 percent increase in the number of cases over 2012. The 554 cases from 2013 is the highest number we have seen in our 6 years of conducting this analysis. See the chart below for the number of cases per year since 2009:



This chart demonstrates a fairly clear and steady increase in the number of major embezzlement cases identified since 2009, consistent with our belief that, following the late 2008 economic crash in the US, more of this type of fraud would occur (and be discovered), over a 4 to 5 year time horizon. Last year we predicted that the 2013 number of cases would exceed the 2012 number – a prediction that was borne out. The prediction is based upon the theory that more cases actually occur – and more cases are discovered due to greater stakeholder vigilance – in down economies. The 4-5 year time horizon is based upon the average duration of these cases being about 4 ½ years as we have seen from our aggregated data. We can predict that 2014 results would be about the same as 2013 or perhaps even show a slight drop – a decline which should continue in the following years, but at a gradual pace, since the economic recovery has been so anemic over this period.

In any event, the results outlined in *The 2013 Marquet Report on Embezzlement*, along with our analysis of embezzlement cases over the past six years, demonstrates that employee theft continues to be alive, well and thriving in the current business climate in the United States. Nevertheless, we cannot forget that there is always an ambient level of fraud, waste and abuse in organizations of every size, shape and color, regardless of the strength of the economy or the vigilance of stakeholders.

We believe that our data shows that poor economies and economic downturns are drivers for potential embezzlers. However, this is not the only factor. Indeed, our data suggests that the primary motivating factor for perpetrators of long-term embezzlements is not because the money is needed for dire financial circumstances, but rather to obtain and maintain a lifestyle beyond what they would otherwise be able to attain. In some of these cases, the thefts actually began in good economic times, prior to the late 2008 market crash, and they continued over many years. We have also noted that during boom years, employee theft can easily go unnoticed since the victim organization may be making healthy profits and the perpetrator begins by taking relatively small, regular amounts that fall under the oversight radar screen. We have also learned that many embezzlers accelerate their thefts over time – as well as increase the magnitude of their thefts over time – leading to a higher probability of getting caught in later years. This fact is also exacerbated by the fact that over time, it become more difficult to hide significant thefts. We also believe that in difficult markets, employee theft and other corporate frauds are more likely to be revealed since business stakeholders tend to be more attentive to finances and to the bottom line.

All of this preface is to say that we would expect more embezzlement cases to surface in poor economies than in good. Nevertheless, the bottom line is that people will always steal from their employers no matter what the economic circumstances – it is just the degree and frequency that oscillates.

The following statistics are highlights based upon our analysis in *The 2013 Marquet Report on Embezzlement*:

- The average loss for 2013 was about $1.1 million; the median loss was $325,000;
- More than 2/3 of the incidents (71%) were committed by employees who held finance/ bookkeeping & accounting positions;
- The average scheme lasted 4.6 years;
- The most common embezzlement scheme involved the issuance of forged or unauthorized company checks;
- Nearly 24% of the cases in which a motivating factor was known involve perpetrators who reportedly had gambling issues;
- Nearly 7% of the cases involved perpetrators who had a prior criminal/fraud history;
- The average embezzler in this study stole more than $19,000 per month from their employer;
- Vermont had the highest Embezzlement Propensity Factor™* in the US followed by the District of Columbia, West Virginia, Montana, South Dakota, Virginia, Idaho, Oklahoma,

Texas and Missouri, respectively – identifying these states as having the highest risk for loss to embezzlement in 2013;

- The financial services industry suffered the greatest number and the greatest losses due to major embezzlements;
- Credit Unions continue to be a major target/victim of large embezzlement schemes;
- Government entities were the second most frequent victim after Financial entities, followed by the combined group of Non-profits and religious organizations;
- Nearly three-fifths (57%) of the incidents involved female perpetrators;
- Male perpetrators, on average, embezzled about two and a half times as much as females;
- 81 percent of the cases involved individual perpetrators;
- The average adjusted age** of perpetrators at the commencement of their embezzlement was just over 43 years;
- 40 – 49 year olds were the most frequent culprits;
- Most major embezzlers appear to have been motivated by a desire to live a relatively more lavish lifestyle, rather than driven by financial woes;
- The average prison sentence was less than 4 years (44 months) for convicted major embezzlers; and,
- Maryland and Arkansas had the shortest average prison sentence major embezzlers in 2013.

* Embezzlement Propensity Factor or EPF = $\frac{1}{2}\{(\lambda \div \gamma) + (\psi \div \varphi)\}$

where:

λ = percent State share of losses to overall US losses
γ = percent State share of total US GDP[3]
ψ = percent State share of cases to overall number of US cases
φ = percent State share of population of total US population[4]

** The "average adjusted age" is the average age of the perpetrators in the study minus the average duration of the schemes in the study to represent the approximate age at which the average embezzler commenced his or her illicit activities.

Aggregated 6 Year Conclusions

An analysis of the data we have compiled on major embezzlements in the US over the past six years, from 2008 through 2013, which includes a total of 2,698 case studies, allows us to make some definitive conclusions, which continue to be consistent with our prior findings:

- Most major embezzlers begin their schemes in their early 40s (43.9, on average);
- The average major embezzlement spans a 4.7 year period;

[3] 2013 U.S. Bureau of Economic Analysis
[4] 2010 US Census Data

- By a significant margin, embezzlers are most likely to be individuals who hold bookkeeping or finance positions (68.2% of all cases);
- The financial services industry suffers the greatest losses from embezzlement (more than 28.8% of all losses in the data);
- Non-profits and religious organizations together account for nearly one-eighth of all the incidents (11.9% of all cases);
- Women are more likely to embezzle than men (61.1% vs. 38.9% overall in the data);
- Men embezzle significantly more than women ($1.8 million vs. $800,000, on average);
- The vast majority of embezzlements are caused by sole perpetrators (nearly 85% of all cases);
- Gambling is a clear motivating factor in driving some perpetrators to embezzle;
- More than 5 percent of major embezzlers have prior criminal histories;
- The most common embezzlement scheme involves forgery or unauthorized use of company checks (35% of all cases in which the method was known). The next most common scheme involves the theft and/or conversion of cash receipts (21%), followed by unauthorized electronic transfers (12%);
- California has experienced the greatest number of major embezzlements over the past six years (336 cases or 12.5% overall), followed by Michigan (141/5.2%), Pennsylvania (127/4.7%), New York (113/4.2%); Virginia (110/4.1%); and Texas (109/4.0%);
- The five states most frequently named in our annual list of highest embezzlement risk are Vermont, Florida, Missouri, Montana and Virginia.

CHARACTERISTICS OF THE SCHEMES

Magnitude of the Misappropriation

The 2013 Marquet Report on Embezzlement includes 554 major cases of embezzlement, with total reported losses of $594,628,000, a drop from the massive amount from 2012 ($737,074,000). The average loss per case was $1,073,000, again a drop from 2012. Nevertheless, the median loss was $325,000, very consistent with our prior reports. In 2013, there were 100 cases involving thefts of $1 million or more (as compared to 102, 80, 108 and 93 in the 2012, 2011, 2010 and 2009 studies, respectively). Six cases exceeded $10 million in losses in 2013.

The largest embezzlement case in the 2013 report involved a stunning $133.4 million fraud conspiracy involving apparent ringleaders **Charles Edward Pircher**, 60 and **Larry Wayne Kimes**, 62, in West Texas. Pircher and Kimes, who were originally arrested in September 2012,[5] conspired to defraud numerous mom-and-pop small businesses through fraudulent professional employer organizations (PEOs) offering payroll, tax and insurance services. In fact, over a period of more than six years, from 2002 and 2008, Pircher and Kimes, together with other co-conspirators, fleeced the small business owners out of about $120 million in payroll taxes they had contributed to and believed were being paid to the authorities, along with an additional $13 million in insurance premiums the duo diverted to themselves. US Attorney Robert Pitman is quoted as describing the case as "a wide ranging and complex scheme, whose simple purpose was to steal money from company payroll by diverting tax and insurance payments all for personal enrichment."[6] The case is also believed to be the "largest real-dollar loss fraud and tax related case ever prosecuted in the Western District of Texas."[7]

Vidcap of Charles E. Pircher being led from court, 11/2013

Meanwhile, Pircher and Kimes are reported to have lived extravagantly lavish lifestyles which included expensive real estate, such as

[5] http://www.mysanantonio.com/news/local_news/article/2-arrested-in-payroll-tax-scheme-3884438.php
[6] http://www.mysanantonio.com/news/local/article/Ringleader-guilty-in-S-A-s-largest-ever-fraud-5000007.php
[7] http://www.fbi.gov/sanantonio/press-releases/2014/san-antonio-businessmen-sentenced-to-federal-prison-for-fraud-and-tax-scheme-involving-more-than-130-million-in-real-dollar-losses

a 551-acre horse-training ranch called Paradise Farms, a private jet, gambling junkets to Las Vegas, supporting girlfriends and first class vacations.[8] Pircher even reportedly spent $1.2 million of the ill-gotten gains to pay off his restitution order from a 1990 criminal tax fraud scheme conviction.[9] Kimes, an attorney by training, served as Pircher's attorney in the older case. Kimes himself appears to have been the subject of a criminal harassment complaint in late 1999/early 2000 (see below purported mug shot of Kimes from this case).[10] Kimes was later disbarred from practicing law in Texas in 1996, according to media accounts and court records.[11] Kimes, who was also an accountant, was disciplined in 2000 by the Texas State Board of Accountancy for "discreditable acts."[12] Both of these guys are bad actors.


Larry Kimes purported mug shot from Jan 2000

It is not entirely clear which conspirator was the principal ringleader. A number of other individuals were also charged in the case including John D. Walker, II, John Bean, Mike Solis, and Pat Mire – owners of various PEOs wrapped up in the scheme. In any event, in November 2013, Pircher plead guilty to felony tax fraud conspiracy and mail fraud conspiracy charges.[13] Kimes plead guilty to the same charges in January 2014.[14] On April 15, 2014 – tax day ironically, Pircher was sentenced to 11 years in prison and Kimes was sentenced to 12 years in prison.[15] Both were ordered to pay $133 million in restitution. The other individuals received lighter sentences.

It is nice to see that, even though an investigation was years in the making, that these to and the others received justice. For the numerous victims, whose lives were made a living hell as a result of having to deal with the unpaid tax and insurance, they may now be able to rest a little easier.

[8] http://www.mysanantonio.com/news/local/article/Ringleader-guilty-in-S-A-s-largest-ever-fraud-5000007.php
[9] Ibid.
[10] http://www.texas-mugshot-browser.com/Counties/Williamson-County/Larry-Wayne-Kimes.22751082.html
[11] http://www.mysanantonio.com/news/local/article/Ex-lawyer-guilty-in-133-million-swindle-5152892.php
[12] http://www.mysanantonio.com/news/local_news/article/2-arrested-in-payroll-tax-scheme-3884438.php
[13] http://www.fbi.gov/sanantonio/press-releases/2013/san-antonio-businessman-pleads-guilty-to-role-in-133-million-real-dollar-loss-fraud-and-tax-case
[14] http://www.justice.gov/usao/txw/news/2014/Kimes_SA_plea.html
[15] http://www.fbi.gov/sanantonio/press-releases/2014/san-antonio-businessmen-sentenced-to-federal-prison-for-fraud-and-tax-scheme-involving-more-than-130-million-in-real-dollar-losses

The 10 Largest Cases of 2013

The top ten cases outlined in the 2013 report with the biggest reported thefts include the following:

Alleged Perpetrator(s)	Victim Organization	$ Embezzled
L. Kimes & C. Pircher	Numerous PEO clients (TX)	$133,402,000
Aubrey Lee Price	Montgomery Bank & Trust (GA)	$21,000,000
Irina A. Nakhshin	Affiliated Health Group Ltd., et al. (IL)	$20,000,000
Sandy Jenkins	The Collin Street Bakery (Corsicana, TX)	$16,650,000
Linda "Sue" Newcomb	Lynrocten Federal Credit Union (VA)	$10,000,000
Van Emmenis	Fork Union Company (VA)	$10,000,000
Geoffrey Charness	KSL Broadcasting (CA)	$9,500,000
Anthony Chiofalo	Tadano America (TX)	$9,330,000
Robert Rizzo	City of Bell, California (CA)	$9,000,000
Earl Gross	US Mortgage (NV)	$8,440,000

Seven of the top ten were orchestrated by men – consistent with our prior findings that males generally steal more than women. Three of the top ten occurred in Texas. The average duration of these ten cases lasted nearly 7 ½ years – longer than the 4 ½ year average for all of these cases although consistent with the notion that longer lasting schemes tend to cause greater damage. Interestingly, fully seven of the ten were conspiracy cases – once again consistent with our prior finding that conspiracy cases tend to cause greater losses. The average of ten largest thefts in 2013 is $26.5 million, as compared with $38.7 million, $9.7 million, $15.2 million, $13.7 million and $25.8 million in 2012, 2011, 2010, 2009, and 2008, respectively.

Duration of the Scheme

A time span duration was identified for the schemes of 506 of the 554 cases in the study. It should be noted that in a number of instances, prosecutors could only go back in time to the statute of limitations, thereby possibly omitting some of the actual losses as well as understating the actual duration of many of these cases. Nevertheless, we tabulated the known durations, rounded to the nearest tenth of a year and determined the following for 2013:

2013 Report		Six Year Aggregated
Average duration:	4.63 years (or 55.6 months)	Six year average: 4.7
Median duration:	4.0 years	Six year median: 4.0
Longest duration:	21 years	

Although the average duration for 2013 is slightly less than in 2012, these findings are exactly consistent with our overall 6 year aggregated findings. We also noted that a full 39 cases in 2013 exceeded 10 years in duration.

Longest Lasting Cases From 2013

There were two embezzlement cases that are reported to have lasted 21 years each – the longest durations included in *The 2013 Marquet Report on Embezzlement*. One of these cases involved 65-year old **Bryson John Russell** of Lincoln, Illinois, who pled guilty in February 2013 to defrauding **Hartsburg State Bank** as much as $562,000 through a bogus loan scheme.[16] Russell, who became president of the bank in 1989, reportedly began stealing from the financial institution in 1992 by creating fraudulent bank loans in the names of various customers including relatives of his and then created different, larger loans to pay off loans that came due.[17] He also reportedly looting a bank customer certificate of deposit. In September 2013, Russell was sentenced to 30 months in prison and order to pay full restitution.[18]

The second 21 year case allegedly involved a conspiracy reportedly led by 54-year old **Irina A. Nakhshin** and a cohort, **Inna Koganshats**, who fleeced **Affiliated Health Group Ltd**., and **Access Health Center Ltd**. in Illinois, out of $20 million, according to civil complainants, Drs. Vijay Goyal and Vinod Goyal who own the healthcare practices.[19] The doctors filed a suit against their bank, Devon Bank, for "turning a blind eye to the alleged fraud for 21 years."[20] According to the civil complaint, "Nakshin and another former employee, Inna Koganshats, opened accounts at Devon Bank in the names of ventures nearly identical to ventures that the physicians actually controlled" and they routinely and "wrongfully deposited checks into their accounts checks that were intended for the Goyals or their businesses."[21] We note that this case does not appear to have been prosecuted and there is little information beyond the initial civil complaint.

Methodology of the Schemes

We attempted to determine the primary methodology for each scheme in the study, breaking them down into a number of general categories. While many cases in the study involved more than one method of theft, we nonetheless selected what we believed to be the principal embezzlement method in each case, for the purpose of this report. The embezzlement method categories include:

- **Bogus loan schemes** include cases in which fraudulent loans are created or authorized by the perpetrator from which funds are taken for their own benefit.

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[16] http://www.illinoishomepage.net/story/d/story/former-bank-prez-admits-embezzling/40174/fluqRVizhkWON-GY14NEjg

[17] Ibid.

[18] http://www.wjbc.com/common/page.php?pt=Former+Logan+County+bank+president+sentenced+to+federal+prison&id=85013&is_corp=0

[19] http://www.chicagobusiness.com/article/20131029/NEWS03/131029763/the-20-million-fraud-scheme-that-almost-never-ended

[20] Ibid.

[21] Ibid.

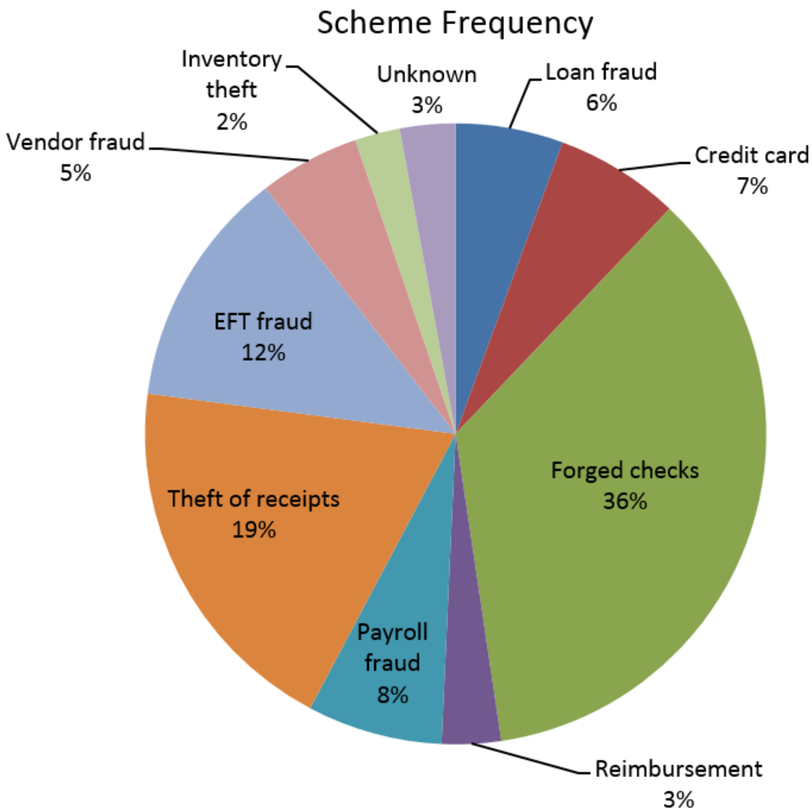
- **Credit card/account fraud** cases involve the fraudulent or unauthorized creation and/or use of company credit card or credit accounts.
- **Forged/unauthorized check** cases are those in which company checks are forged or issued without authorization for the benefit of the perpetrator.
- **Fraudulent reimbursement schemes** include expense report fraud and other cases in which a bogus submission for reimbursement is made by the perpetrator.
- **Inventory/equipment theft** schemes include those cases in which physical corporate assets were stolen and sold or used for the benefit of the employee.
- **Payroll shenanigan** cases include all forms of manipulation of the payroll systems in order for the perpetrator to draw additional income.
- **Theft/conversion of cash receipt** cases involve the simple taking of cash or checks meant for company receipts and pocketing or converting them for one's own benefit.
- **Unauthorized electronic funds transfers** include those cases in which wire transfers and other similar transfers of funds were the primary mode of theft.
- **Vendor fraud** cases include those where either a bogus vendor is created by the perpetrator to misappropriate monies or a real vendor colludes with the perpetrator to siphon funds from the company.

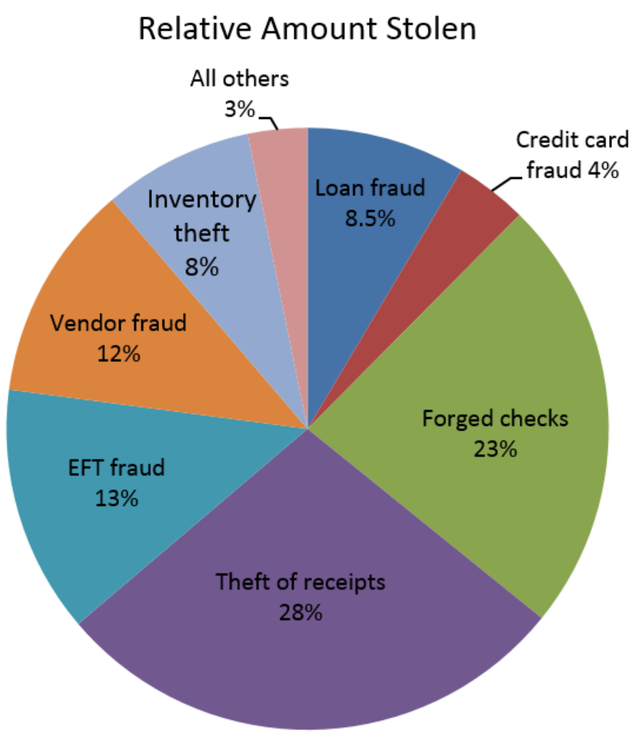
Our analysis revealed the following breakdown among the schemes:

Embezzlement Scheme	Number	% total	Amount	% total
Bogus loan scheme	31	5.6%	50,777,000	8.5%
Credit card/account abuse	36	6.5%	23,097,000	3.9%
Forged/unauthorized checks	197	35.6%	139,118,000	23.4%
Fraudulent reimbursement scheme	17	3.1%	7,569,000	1.3%
Inventory/equipment theft/conversion	13	2.3%	5,702,000	1.0%
Payroll shenanigans	39	7.0%	166,260,000	28.0%
Theft/conversion of cash receipts	107	19.3%	79,088,000	13.3%
Unauthorized electronic transfers	69	12.5%	69,399,000	11.7%
Vendor fraud scheme	29	5.2%	47,919,000	8.1%
Undetermined	16	2.9%	5,699,000	1.0%
Totals:	554	100.0%	594,628,000	100.0%

As we have seen every year since we began these studies in 2008, the most common type of embezzlement scheme is the forgery or unauthorized use of company checks for one's own benefit. More than one-third of all major embezzlement cases in the 2013 study were principally the result of this type of scheme. The next three most common forms of embezzlement were theft/conversion of cash receipts (19.3%), unauthorized electronic transfers of funds (12.5%) and payroll shenanigans (7.0%). These results are fairly consistent with our prior years' reports.

Below are pie charts illustrating the breakdown in frequency and the relative amount stolen for the various schemes identified, based upon the above data:


Scheme Frequency
Inventory theft 2%
Unknown 3%
Loan fraud 6%
Credit card 7%
Vendor fraud 5%
EFT fraud 12%
Forged checks 36%
Theft of receipts 19%
Payroll fraud 8%
Reimbursement 3%

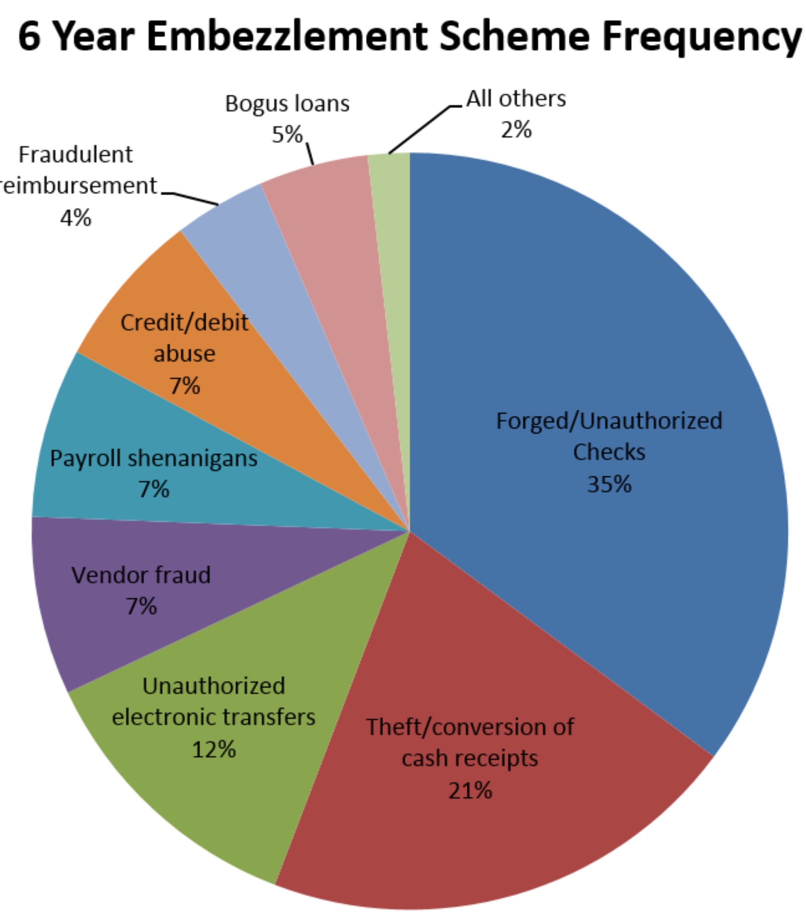

Relative Amount Stolen
All others 3%
Credit card fraud 4%
Loan fraud 8.5%
Inventory theft 8%
Vendor fraud 12%
Forged checks 23%
EFT fraud 13%
Theft of receipts 28%

6 Year Aggregated Results

An analysis of our six years of data, including 2,071 cases in which the primary embezzlement method was determined, reveals the following breakdown in frequency:

Embezzlement Scheme	Cases
Forged/Unauthorized Checks	728
Theft/conversion of cash receipts	428
Unauthorized electronic transfers	252
Vendor fraud	158
Payroll shenanigans	150
Credit/debit account abuse	140
Fraudulent reimbursement	81
Bogus loan scheme	97
All others	37
Total	2,071

This data can be illustrated in the following pie chart:



As we have consistently seen and our six year aggregated results demonstrate, forged or unauthorized check writing is, by a significant margin, the most common form of embezzlement. Theft or conversion of cash receipts, followed by unauthorized electronic transfers are next in succession.

Was the scheme the act of a sole perpetrator or a conspiracy?

In the 2013 study data, we were able to determine with relative confidence in all 554 cases whether the embezzlement was the work of a lone perpetrator or a conspiracy of individuals. The table below illustrates the relative breakdown between solo and conspiracy cases and compares the relative losses for each category:

Solo vs. Conspiracy	Conspiracy	Solo	Totals
Raw number	103	451	554
Percentage of sample	18.6%	81.4%	100.0%
Gross loss per category	293,075,000	301,553,000	594,628,000
Percentage of sample	49.3%	50.7%	100.0%

This year, while the raw number of cases is consistent with prior years, the relative amount stolen runs nearly in the same proportion. Our data continues to demonstrate that conspiracy cases typically accounted for a disproportionately high loss ratio.

We have noted in our prior reports – consistent with the respective data, that we would expect schemes perpetrated by a single individual would have a lower probability of being revealed and therefore last longer – as compared to conspiracies which we believe would have a higher probability of being revealed. However, in the 2013 data, conspiracy cases lasted an average of 4.9 years whereas individually perpetrated embezzlements spanned an average of 4.6 years, not consistent with our theory.

Our six year aggregated data reveals (including 2,694 case studies) that 84.6 percent of the cases were perpetrated by a single individual whereas conspiracy cases comprised 15.4 percent.

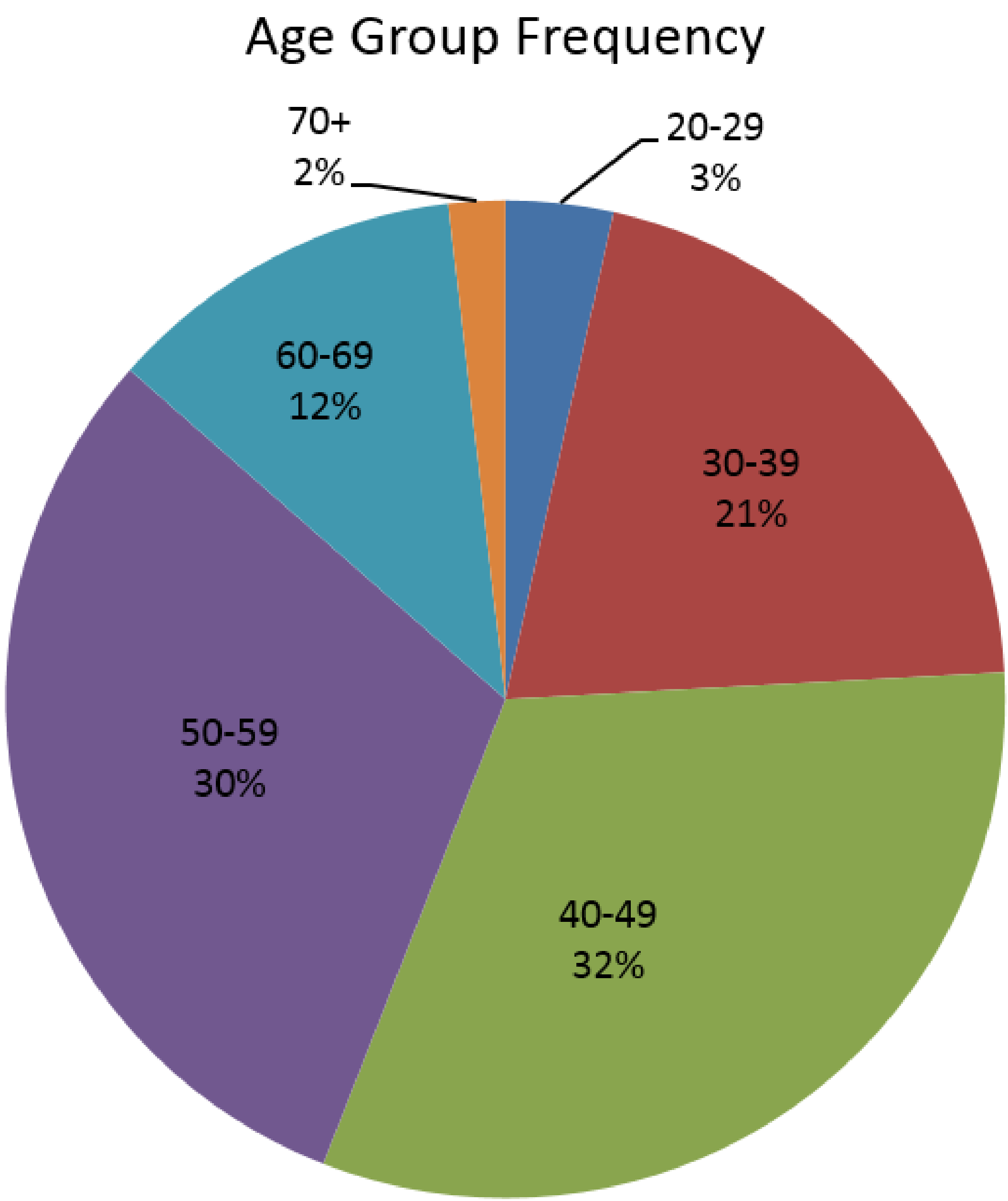
CHARACTERISTICS OF THE PERPETRATORS

Age of the Perpetrator

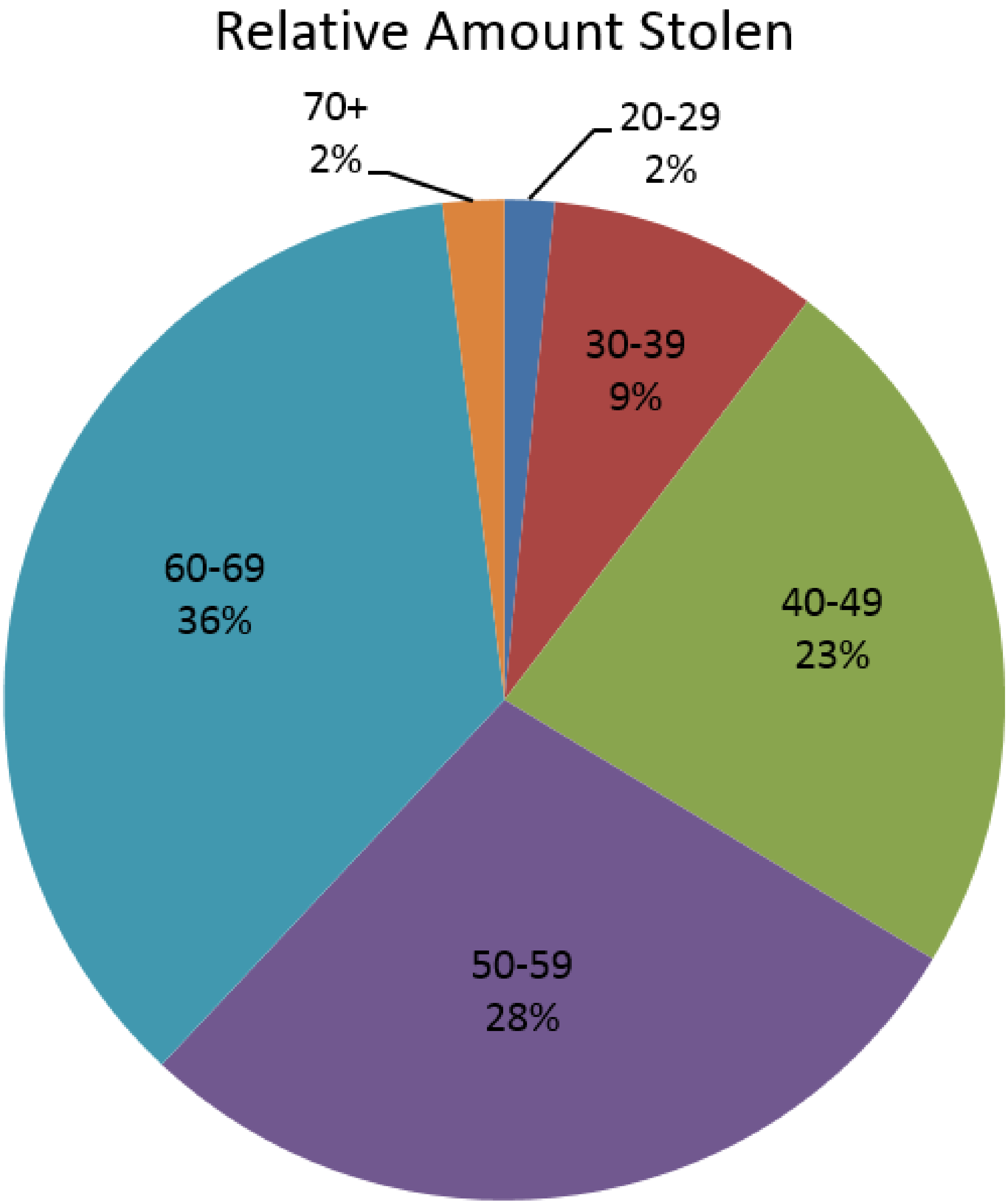
The age of the perpetrator at time of discovery was known with reasonable accuracy in 547 of the 554 cases in our 2013 survey. Based on the available data, the average age of the perpetrator in 2013 was 47.9 years – consistent with our prior reports. Likewise, the median age was 47, also consistent with our prior reports. **The average adjusted age**, which is the average age, minus the average duration, was 43.25 – again consistent with our prior years' analysis.

The age group breakdowns for 2013 are depicted in the following table and pie charts:

Age Group	20-29	30-39	40-49	50-59	60-69	70+
Raw number	19	113	174	167	64	10
% of sample	3.5%	20.7%	31.8%	30.5%	11.7%	1.8%
Gross loss	$9,525,000	$51,894,000	$138,289,000	$168,106,000	$213,615,000	$11,817,000
% of sample	1.6%	8.7%	23.3%	28.3%	36.0%	2.0%
Avg. loss	$501,316	$459,239	$794,764	$1,006,623	$3,337,734	$1,181,700



Once again, consistent with our earlier reports, the 40 – 49 age group accounted for the greatest number of cases, followed closely by the 50 – 59 age group. However, in the 2013 data, the 60 – 69 year old category accounted for the greatest losses. This is due in no small part to the skewing from the Pircher/Kimes case in Texas.



Some other noteworthy facts from the 2013 data related to the perpetrator's age include the following:

- Oldest in the sample: 80
- Youngest in the sample: 21
- Average male age: 49
- Average female age: 47
- Average adjusted age: 43

The oldest major embezzler included in the 2013 study is the case involving 80-year old **Marilee Garrison** and her daughter, 37-year old **Susan Hilgeman** from Newburgh, Indiana. They were convicted of embezzling $290,000 from a non-profit Masonic affiliated women's group called "Evansville 555 Eastern Star." From about 2008 to 2012, the mother-daughter duo, who consecutively served as treasurer of the group during this time, wrote a series of unauthorized checks to themselves, mostly benefiting Hilgeman, draining the non-profit's accounts. In November 2013, Garrison was sentenced to 4 years of home detention.[22] Hilgeman also plead guilty in 2013 and was sentenced to probation.[23] [24]


Susan Hilgeman (l) & Marilee Garrison (r), Vanderburgh County, Indiana mug shots

[22] http://www.in.gov/judiciary/opinions/pdf/06041401cjb.pdf
[23] http://www.wbiw.com/local/archive/2012/12/woman-sentenced-after-stealing.php
[24] http://www.tristatehomepage.com/story/tough-but-fair-punishment-for-elderly-woman-accused-of-embezzlement/d/story/ZtlPtXGSrEOrUjHzOodoNw

6 Year Aggregated Results

The 2013 figures are fairly consistent with our prior years' reports. The overall average age from the 6 year aggregated data (which includes 2,654 case studies), was 47.6 years. The average age in the 6 year aggregated analysis was 48.9 years for males and 46.7 for females.

Gender of the Perpetrator

The gender of 551 alleged perpetrators was known in the 554 cases in *The 2013 Marquet Report on Embezzlement*. Of those, 236 were male and 315 were female. That is, 43 percent were male and 57 percent were female. Like last year, these numbers are not as skewed in favor of females as we have seen in earlier study years, but women are clearly more frequently the perpetrators in these major embezzlement cases, consistent with our overall data. It is possible that the variance is simply because we believe that there are more women working in bookkeeping and finance departments than men. Indeed, of the 386 Finance position cases in which the gender was known, 67% were female. However, this is not conclusive.

Interestingly, the average loss caused by males was $ 1,638,506 compared to $ 644,524 for females. In other words, men stole more than 2 ½ times more than women, on average. Males accounted for about 66 percent of the total losses and females accounted for 34 percent of the total losses. These findings are consistent with our overall conclusion that males on average embezzle more than females in a given case while females are more likely the perpetrators of embezzlement.

Another noteworthy finding from the 2013 data is that males are more likely to engage in embezzlement schemes that involve a conspiracy of individuals (29% of the time), as compared to females (17% of the time). This is consistent with our prior findings. The 2013 data also found that men are 5 times more likely to engage in vendor fraud than women. Men also preferred inventory theft/conversion and bogus loan schemes over women. Whereas we found that women were more likely to engage in forgery/unauthorized checks and payroll fraud schemes. These findings are consistent with our analysis from last year.

See the chart below:

Scheme by Gender (536 in sample)	Male	% Frequency	Female	% Frequency
Bogus loan scheme	23	10.0%	8	2.6%
Credit card/account abuse	15	6.6%	21	6.8%
Forged/unauthorized checks	69	30.1%	127	41.4%
Fraudulent reimbursement scheme	8	3.5%	9	2.9%
Inventory/equipment theft/conversion	12	5.2%	1	0.3%
Payroll shenanigans	14	6.1%	25	8.1%
Theft/conversion of cash receipts	37	16.2%	69	22.5%
Unauthorized electonic transfers	28	12.2%	41	13.4%
Vendor fraud scheme	23	10.0%	6	2.0%
Totals	229	100.0%	307	100%

Finally, we also found that the duration of schemes was pretty consistent between men and women (4.7 years for men versus 4.6 years for women).

6 Year Aggregated Results

An analysis of our 6 year aggregated data (which includes 2,682 cases in which the sex of the perpetrator is known) reveals 1,639 females and 1,043 males or 61.1% female and 38.9% male. These results conclusively demonstrate that women are predominantly the perpetrators of major embezzlements in our society at this time (again with the caveat that there appear to be more women in bookkeeping/finance positions than men). Nevertheless, our data also shows that men stole an average of about $1,832,000 per embezzlement case while women stole an average $799,000. In other words, while women were 1.6 times more frequently the perpetrator of major embezzlements, men stole 2.3 times as much as women, in a given case.

We also looked at the 6 year aggregated data in terms of the scheme method by gender. The 2013 results above are reasonably consistent with the below chart for the 6 year cumulative results:

Scheme by Gender (6 yr)	Male	% Frequency	Female	% Frequency
Bogus loan scheme	44	5.5%	35	2.8%
Credit card/account abuse	50	6.3%	90	7.3%
Forged/unauthorized checks	215	26.9%	512	41.6%
Fraudulent reimbursement scheme	41	5.1%	40	3.2%
Inventory/equipment theft/conversion	21	2.6%	1	0.1%
Payroll shenanigans	45	5.6%	103	8.4%
Theft/conversion of cash receipts	148	18.5%	278	22.6%
Unauthorized electonic transfers	117	14.6%	135	11.0%
Vendor fraud scheme	119	14.9%	38	3.1%
Totals	800	100.0%	1232	100%

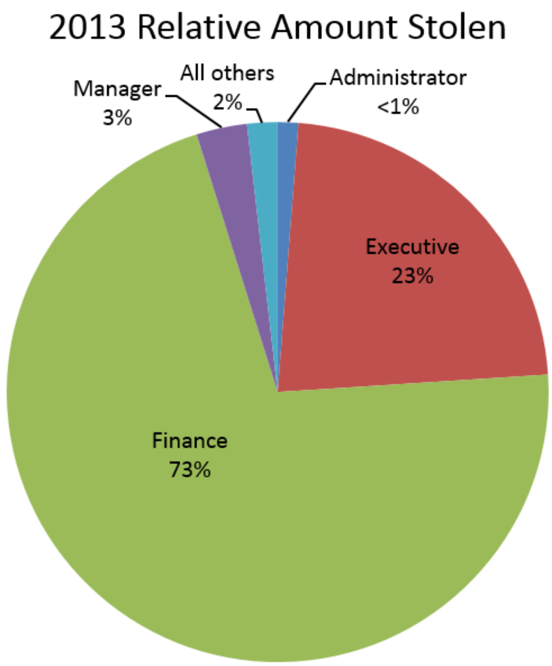
Commentary on How the Schemes Were Discovered

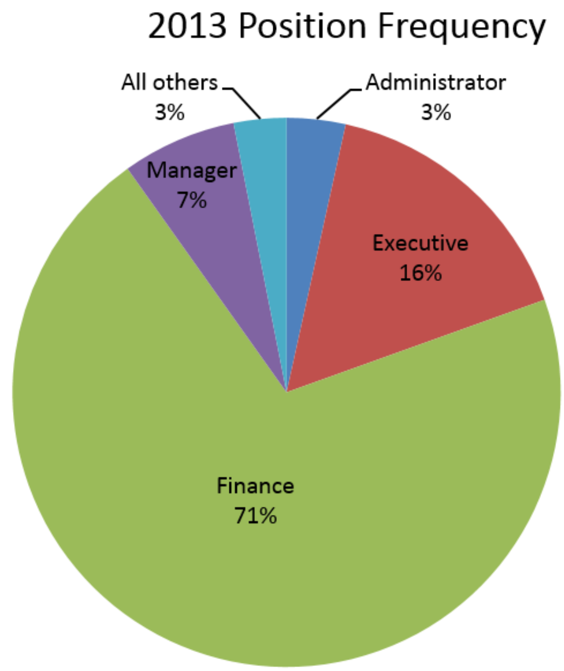
To date, we have not included an examination of how these schemes are discovered. This information is not often disclosed in the public record. Nevertheless, we intend to begin gathering this data where available and including it in future reports. Some of the categories we anticipate include: Accidental discovery; Regular audit; Surprise audit; Anonymous tip; Died/left employ; Customer complaint; Tax authority complaint; Vendor complaint; and others.

Position Held by the Perpetrator

To the extent we can determine, based upon the public record, we have assigned 8 broad job classifications, i.e. positions, held by each of the perpetrators. We were able to classify 548 of the perpetrators' positions for the 2013 survey. These position categories include: Administrator; Executive; Finance & Accounting; Human Resources; Information Technology;

Manager; Sales; and Vendor. Note that the Finance & Accounting position includes everything from CFOs to "bookkeepers" and bank tellers, attorneys who are trustees of accounts or similar fiduciary positions. The Executive category includes very senior level executives, including owners, CEOs and Presidents. Managers are mid-level personnel, not principally involved in finance or sales – usually operational positions. The others are self-explanatory. A breakdown of the jobs and the corresponding losses as well as respective percentages of the whole, is set forth in the charts and table below:



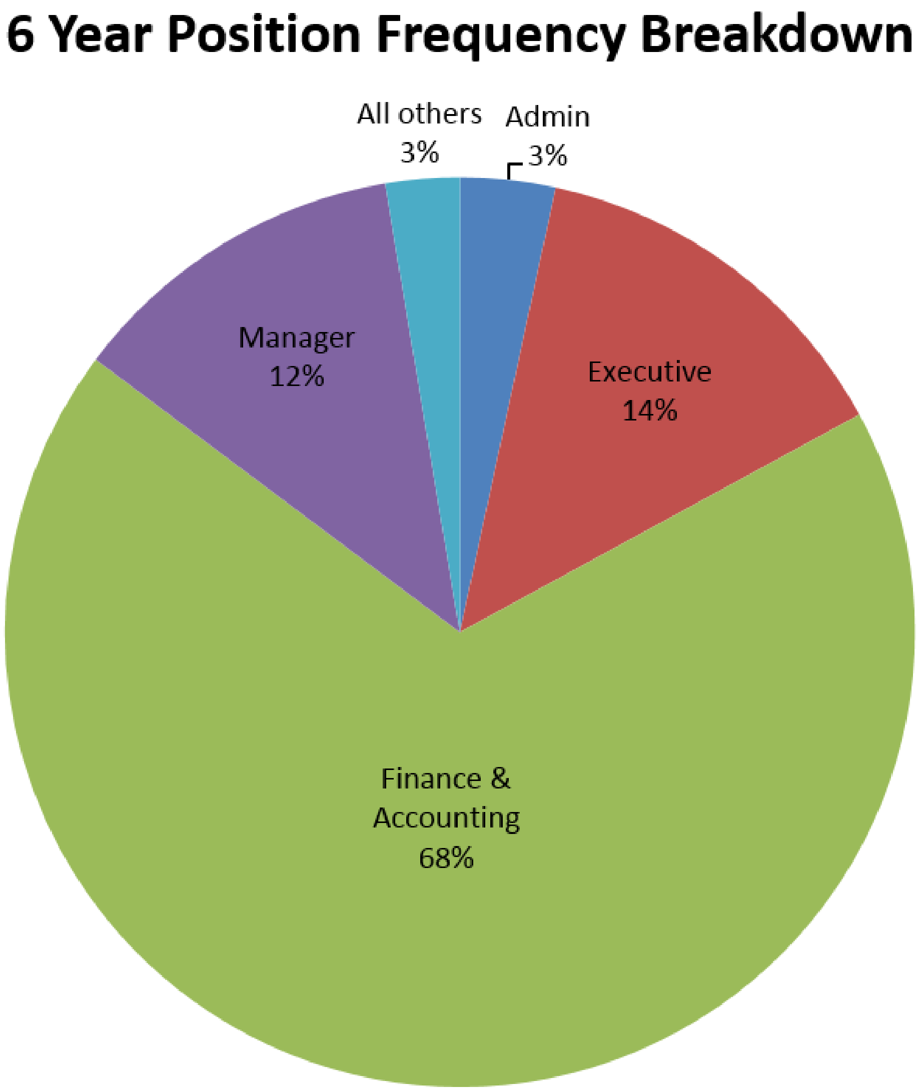


Position:	Admin	HR	IT	Executive	Finance	Manager	Sales	Vendor
Raw number	19	4	3	88	387	37	5	5
% of sample	3.5%	0.7%	0.5%	16.1%	70.6%	6.8%	0.9%	0.9%
Gross loss	7,269,000	1,944,000	3,603,000	134,861,000	422,271,000	17,936,000	1,650,000	3,554,000
% of sample	1.2%	0.3%	0.6%	22.7%	71.2%	3.0%	0.3%	0.6%
Avg. loss	382,579	486,000	1,201,000	1,532,511	1,091,140	484,757	330,000	710,800

As we have seen every year of this study, the Finance & Accounting positions account for the vast majority of all the embezzlement incidents. This makes since, as Willy Sutton, the infamous bank robber once explained when asked by he robbed banks, "because that's where the money is." For 2013, nearly 71 percent of all the incidents were perpetrated by people with a fiduciary role. The Finance category was further skewed upward due to the Pircher/Kimes $133 million embezzlement case in Texas. And once again, we see Executives taking a disproportionally higher piece of the pie, albeit not as dramatic as in years past. Administrators, HR Personnel, Sales People all take disproportionately lower amounts, whereas Finance, Vendors and IT Staff appear to take in rough even proportions, according to the 2013 data.

6 Year Aggregated Results

An analysis of our six years of data on position held by the embezzler reveals the following frequency breakdown by position as depicted in the following table and pie chart:



Position	Number	Percent
Admin	90	3.4%
Executive	364	13.7%
Finance	1814	68.2%
Manager	323	12.1%
All others	70	2.6%
Totals	2661	100.0%

Motivating Factors

In *The 2013 Marquet Report on Embezzlement*, as in our prior reports, we have attempted to determine the apparent primary motivating factor for each perpetrator in these embezzlement cases and to conduct an analysis of those factors. As we have noted, this characteristic is the most subjective element in this report. Nevertheless, based upon media accounts, interviews and law enforcement descriptions of the circumstances, we made informed identifications of primary motivating factors in 210 of the 554 cases in the 2013 study.

We placed the apparent motivating factors into the following ten categories (adding Coercion to the list for the first time this year), including:

- Coercion
- Entitlement belief
- Financial need
- Lavish lifestyle
- Gambling issue
- Romance driven
- Shopping addiction
- Substance abuse
- Support a personal business
- Support significant other

The overall break down in the 2013 study was as follows:

Motivation	Need	Gambling	Lifestyle	Drugs	Business	Shopping	Family	Entitled	Forced	Love	Total
Number	9	50	126	1	7	2	7	3	2	3	210
Percent	4.3%	23.8%	60.0%	0.5%	3.3%	1.0%	3.3%	1.4%	1.0%	1.4%	100.0%

Once again, in the cases in which we were able to assign a primary motivating factor in the 2013 study, the vast majority was a desire to obtain and maintain a better lifestyle than otherwise. In addition, gambling continues to be a major factor for many embezzlers. In some cases, the gambling problem was also part of an overall extravagant lifestyle. For those, we attempted to assign either one or the other factor, depending upon which appeared to be more significant. Again, this is not a perfect science and a certain amount of subjectivity is involved.

This year we had two cases in which the embezzlement was conducted, at least in part, as a result of coercion. One of these cases sounds like it comes from a movie script. **Chris Allen Phillips**, 50, of Hanover County, Virginia, was a pastor and youth minister with the **Mechanicsville Advent Christian Church**. In May 2013, Phillips was arrested for embezzling from the church and used money he to pay an extortion to a **Tonya M. Farnsworth**, 33.[25] According to public records, Phillips had paid Farnsworth for oral sex, but she turned around and blackmailed

[25] http://www.timesdispatch.com/news/latest-news/hanover-pastor-arrested-for-embezzling-from-church/article_a176481e-c4b5-11e2-ac2a-001a4bcf6878.html

Phillips by threatening to expose Phillips if he did not pay her $180,000. Phillips plead guilty in November 2013 and was ultimately sentenced to six months in prison in July 2014.[26] For her part, Farnsworth got 3 years.[27]

Chris Allen Phillips (l) and Tonya M. Farnsworth (r) mug shots from Hanover County, Virginia

Commentary on the connection between gambling & embezzlement

We believe that the above findings are significant and that gambling is a prime motivating factor in many embezzlement cases. Chris Marquet interviewed two state prosecutors in recent months on his *Fraud Talk* radio program[28] about this phenomenon, one based in Wisconsin and the other in California. Both told Chris that they see gambling as a major factor in many of their employee theft cases. One prosecutor went so far as to say that virtually every major embezzlement case he prosecuted had a gambling element to it. This prosecutor automatically subpoenas the local tribal gaming establishment's records any time he has an embezzlement case. While this is anecdotal, it is nevertheless compelling. In *The 2013 Marquet Report On Embezzlement*, we identified 50 cases in which gambling was a factor (24 percent of the cases in which a motivating factor was known and 9 percent of the total sample). There may be many more than the 50 we found, but the public record we reviewed did not specify one way or the other for many of the cases. Interestingly, when we looked at gambling across gender lines in

[26] http://www.timesdispatch.com/mechlocal/news/crimes-and-arrests/former-youth-pastor-sentenced-for-embezzling/article_9f4596ec-06d8-11e4-9b5e-001a4bcf6878.html
[27] Ibid.
[28] http://www.voiceamerica.com/show/2349/fraudtalk

the 2013 study, women were much more likely to embezzle as a result of a gambling problem than men (by a factor of nearly 2½).

As far as a geographic correlation is concerned, California had the highest number of cases tied to gambling (7), followed by New York (5), Oklahoma (4), and then Massachusetts (3), Michigan (3) and Nevada (3). Only 3 of the 50 cases we identified as involving gambling as a factor occurred in states that did not allow either commercial or tribal gaming. To us that is a significant finding. Clearly individuals can in many cases cross state lines to engage in gambling but others gamble online or in other venues.

A recent article published in the Observer-Reporter made the claim that Southwest Pennsylvania has seen a dramatic uptick in embezzlement cases since slots were legalized 7 years ago.[29] The article goes on to say, "police are noticing a growing trend where public officials and others in power embezzle money to feed their gambling addictions." One local law enforcement official is quoted in the article as saying, "You see these crimes that are collateral to [a gambling] addiction."

Frankly, aside from our own analysis, we have not seen many credible independent studies on this subject. One study was commissioned in the late 1990s which purports to refute the link.[30] However, this study is quite dated, given the expansion of gaming in the past 15 years, and appears to have been commissioned by the gaming industry itself. We intend to continue our analysis of this motivating factor in many embezzlement cases.

<u>6 Year Aggregated Results</u>

We determined with reasonable certainty the primary motivating factor for major embezzlers in 448 cases from our 5 years of data. These break down as follows:

Motivation	Number	Percent
True need	17	2.5%
Sense of entitlement	7	1.0%
Finance business	30	4.4%
Gambling addiction	199	29.1%
Lavish lifestyle	394	57.5%
Romance	9	1.3%
Shopping addiction	7	1.0%
Substance addiction	11	1.6%
Support family member	9	1.3%
Coercion	2	0.3%
Total	685	100.0%

[29] http://www.observer-reporter.com/apps/pbcs.dll/article?AID=/20140405/NEWS01/140409689#.VJDUvu8tGpo
[30] http://www.americangaming.org/newsroom/press-releases/link-between-white-collar-crime-and-gambling-refuted

Clearly lifestyle is the primary factor for major embezzlers. However, nearly 1/3 of those known motivators involved gambling. Cases of true need were frankly few and far between. We see a smattering of other cases involving various addictions and even theft to support a romantic interest.

Prior Criminal History

Of the 549 known individual (in some cases alleged) perpetrators in the study, 36 were known definitively to have engaged in prior criminal/fraudulent activity. This number represents 6.6% of the group, higher than what we have seen in prior years, but consistent with our expectations.

An analysis of the 2013 data reveals the following:

- 6.6% of the (alleged) perpetrators had prior criminal records or a history of fraudulent activity;
- 78% of prior criminals held finance positions;
- 81% of prior criminals were solo embezzlers;
- 53% of prior criminals were male;
- 50% of prior criminal engaged in forged or unauthorized check writing as the most common primary method of embezzlement;
- New York and California had the highest number of prior criminal cases (4 each);

One of these cases in the 2013 study that involved a perpetrator with a prior criminal history is the aforementioned Pircher/Kimes case in Texas that fleeced numerous small businesses out of $133 million. Another case involved an Idaho woman, **Sonia Jean Branch**, who was recently sentenced to prison for embezzling $1.2 million from a local business called **High Desert Wall Systems**. Branch had previously been sentenced to a 4 year prison term for embezzling $200,000 from another company in 1988.[31] Branch worked as a bookkeeper for High Desert Wall Systems for nearly 20 years – but never should have been given any kind of fiduciary role, given her past. In her most recent scheme, Branch wrote numerous unauthorized checks to herself or for her benefit over a 7 year period.

6 Year Aggregated Results

The above results may still not be statistically significant, given that they are based upon a relatively small sampling. However, our six years of data includes 137 cases in which the perpetrator definitively had a prior criminal/fraud history. This figure represents 5.1 percent of the 2,669 known individuals in the sample. As we have noted in our prior reports, we believe this number to be undercounted and estimate the true figure to be between 5 and 10 percent. This is due to the fact that information on prior criminal activity is not always available, as well as the fact that not all criminal matters are prosecuted.

[31] http://www.jrn.com/kivitv/news/Emmett-woman-sentenced-for-12M-embezzlement-233623161.html

We found the following, based upon these 137 cases:

- 5.1% of the (alleged) perpetrators had prior criminal records or a history of fraudulent activity;
- 76% of prior criminals held finance positions;
- 88% of prior criminals were solo embezzlers;
- Nearly 64% of prior criminals were female;
- 43% of prior criminal engaged in forged or unauthorized check writing as the most common primary method of embezzlement;
- Nearly 15% of prior criminals stole from non-profits or religious organizations – their most common victim; and,
- California had the highest number of prior criminal cases (18), followed by New York (8), Pennsylvania and Michigan (7 each) and then Maine, Massachusetts and Connecticut (6 each).

We believe that regular background checks are still important in weeding out potentially high risk individuals from the employee pool, despite the relatively low number in which we have documented in this data actual prior criminals re-committed similar acts.

CHARACTERISTICS OF THE VICTIM ORGANIZATIONS

Industry Category of Victim Organizations

We utilized simple industry classifications for the victim organizations identified in each of our surveys. The classifications used in our 2013 survey included the following:

Apparel;	Government entities;	Real estate;
Arts & entertainment;	Healthcare;	Religious organizations;
Automotive;	Hospitality & travel;	Restaurant;
Business services;	Individual(s);	Retail;
Cemetery/funeral services;	Insurance;	Sports & leisure;
Construction;	Labor unions;	Technology;
Education;	Manufacturing;	Telecommunications;
Energy;	Non-profit;	Trade services;
Financial services;	Political organizations;	Transportation/freight;
Food & agriculture;	Professional services;	Utilities; and
Gaming;	Publishing/media;	Waste management.

Several categories have either reappeared or disappeared given the actual victim organization pool for 2013, which included 548 cases.

An analysis of cases for each industry group reveals the following 15 categories which experienced the highest number of major embezzlement cases in 2013, along with their respective average theft are listed below:

Industry Group	# cases	% cases	Gross $ Losses	% total	Average
Financial Services	117	21.4%	264,289,000	44.6%	2,258,880
Government Entity	69	12.6%	44,748,000	7.6%	648,522
Non-profit	43	7.8%	28,977,000	4.9%	673,884
Education	36	6.6%	19,905,000	3.4%	552,917
Healthcare	31	5.7%	44,975,000	7.6%	1,450,806
Manufacturing	25	4.6%	37,003,000	6.2%	1,480,120
Real estate	24	4.4%	13,488,000	2.3%	562,000
Business Services	23	4.2%	17,470,000	2.9%	759,565
Professional services	21	3.8%	19,654,000	3.3%	935,905
Religious organizations	19	3.5%	6,403,000	1.1%	337,000
Construction	18	3.3%	13,055,000	2.2%	725,278
Retail	14	2.6%	4,382,000	0.7%	313,000
Indivudual(s)	12	2.2%	10,278,000	1.7%	856,500
Food & Agriculture	10	1.8%	24,729,000	4.2%	2,472,900
Hospitality & Travel	9	1.6%	2,976,000	0.5%	330,667

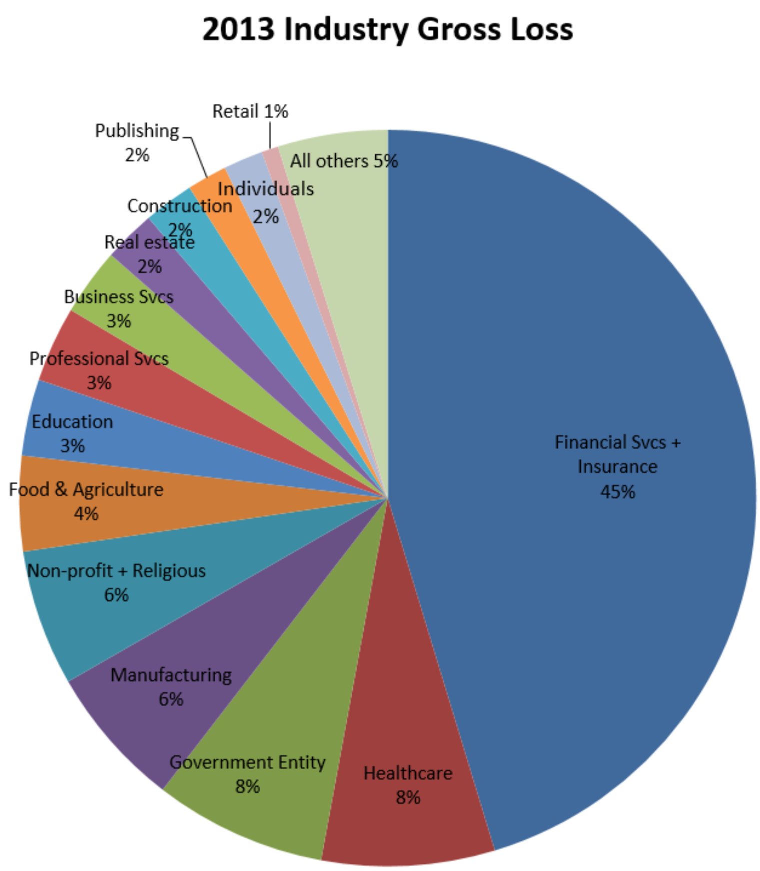
An analysis of losses incurred by industry group reveals the following 15 industries which experienced the greatest gross losses, from the 2013 study, along with their respective average theft:

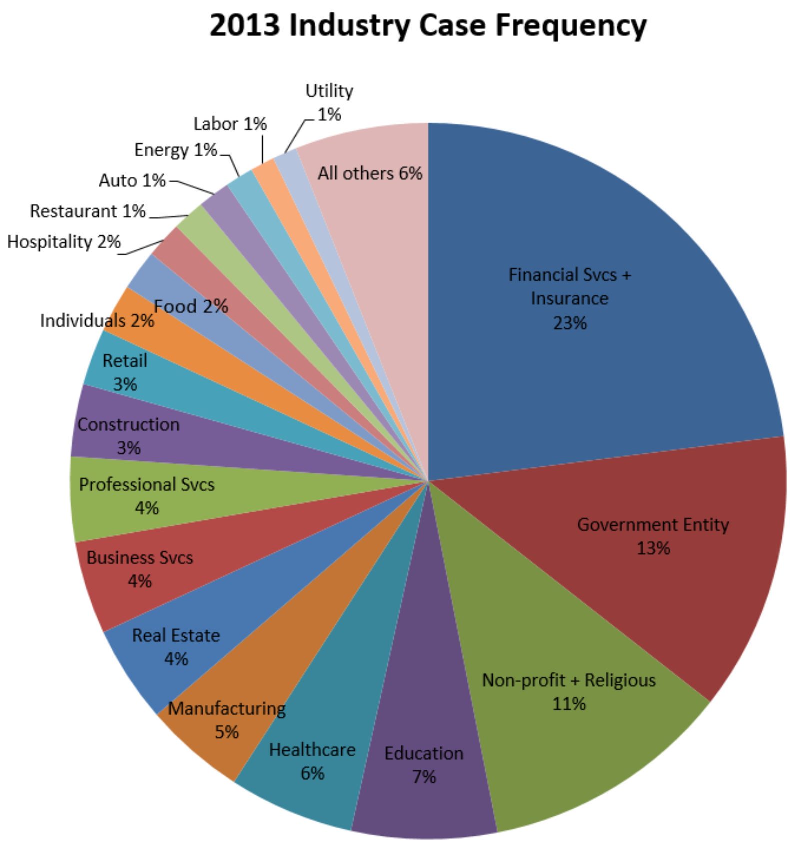
Industry Group	# cases	% cases	Gross $ Losses	% total	Average
Financial Services	117	21.4%	264,289,000	44.6%	2,258,880
Healthcare	31	5.7%	44,975,000	7.6%	1,450,806
Government Entity	69	12.6%	44,748,000	7.6%	648,522
Manufacturing	25	4.6%	37,003,000	6.2%	1,480,120
Non-profit	43	7.8%	28,977,000	4.9%	673,884
Food & Agriculture	10	1.8%	24,729,000	4.2%	2,472,900
Education	36	6.6%	19,905,000	3.4%	552,917
Professional services	21	3.8%	19,654,000	3.3%	935,905
Business Services	23	4.2%	17,470,000	2.9%	759,565
Real estate	24	4.4%	13,488,000	2.3%	562,000
Construction	18	3.3%	13,055,000	2.2%	725,278
Publishing/Media	4	0.7%	10,358,000	1.7%	2,589,500
Indivudual(s)	12	2.2%	10,278,000	1.7%	856,500
Religious organizations	19	3.5%	6,403,000	1.1%	337,000
Retail	14	2.6%	4,382,000	0.7%	313,000

An analysis of losses incurred by industry group reveals the following 15 industries which experienced the highest average theft from the 2013 study:

Industry Group	# cases	% cases	Gross $ Losses	% total	Average
Publishing/Media	4	0.7%	10,358,000	1.7%	2,589,500
Food & Agriculture	10	1.8%	24,729,000	4.2%	2,472,900
Financial Services	117	21.4%	264,289,000	44.6%	2,258,880
Manufacturing	25	4.6%	37,003,000	6.2%	1,480,120
Healthcare	31	5.7%	44,975,000	7.6%	1,450,806
Arts & Entertainment	1	0.2%	1,250,000	0.2%	1,250,000
Professional services	21	3.8%	19,654,000	3.3%	935,905
Trade services	4	0.7%	3,493,000	0.6%	873,250
Indivudual(s)	12	2.2%	10,278,000	1.7%	856,500
Business Services	23	4.2%	17,470,000	2.9%	759,565
Construction	18	3.3%	13,055,000	2.2%	725,278
Technology	3	0.5%	2,089,000	0.4%	696,333
Non-profit	43	7.8%	28,977,000	4.9%	673,884
Government Entity	69	12.6%	44,748,000	7.6%	648,522
Real estate	24	4.4%	13,488,000	2.3%	562,000

Below are pie charts of the industry breakdown for relative gross losses and frequency of total major embezzlement cases in 2013. In these charts we combine Insurance with Financial services and Religious organizations with Non-profits:





As we have seen in our prior reports, the broader Financial Services group, including insurance-related entities, was the most frequent victim category and also experienced the greatest losses in 2013 from major embezzlement schemes. This industry sector has topped our list each year of our survey, beginning in 2008. In *The 2013 Marquet Report On Embezzlement*, the numbers were also skewed against Financial Services due to the Pircher/Kimes case in Texas. Government entities were in second place from a frequency standpoint, consistent with our overall findings. Non-profits and religious organizations combined were third with 11.3 percent of all incidents, which again consistent with our prior findings.

Commentary on Credit Union Embezzlements

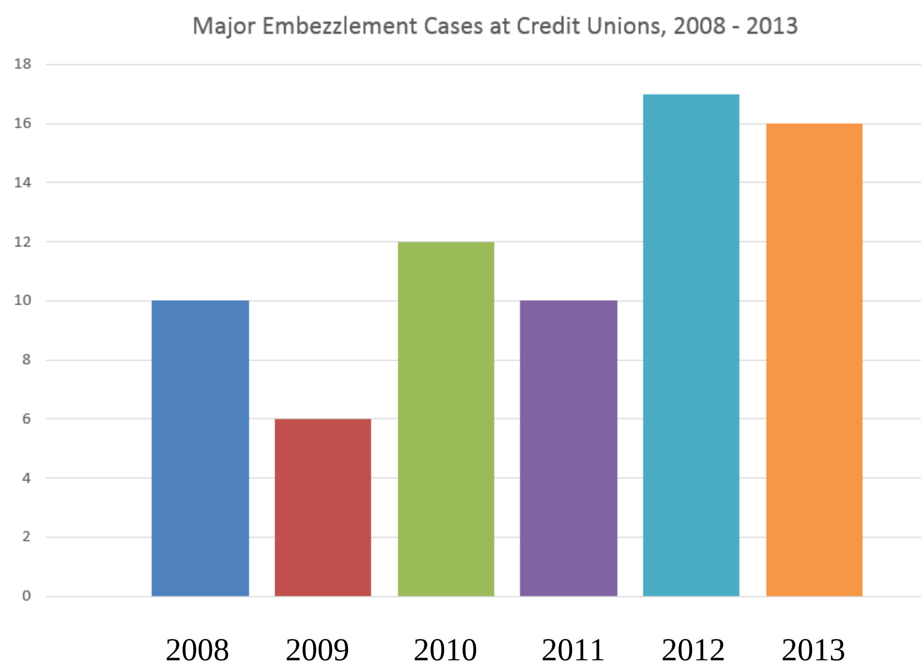
In 2013, we saw 16 major embezzlement cases involving credit unions. That is about the same as what we saw in 2012 (17), but an uptick from prior years. These financial institutions are regularly victimized by embezzlers year after year – apparently due to their relative weaker financial controls. In many cases, the losses are catastrophic enough that regulators must shutter the institution. Much has been written about this phenomenon, particularly by Peter Strozniak, a reporter with *The Credit Union Times*. In a December 9, 2013 article entitled, "Top 7 Insider Credit Union Cases of 2013" Strozniak's opening paragraph reads as follows:[32]

> 'Credit Union Times reported approximately 35 fraud cases this year and about 75% of them were committed by credit union employees, namely CEOs, managers, loan officers and tellers.'

Strozniak goes on to report that, "Six out of the seven credit unions – well under $50 million in assets each – were shuttered by the [National Credit Union Administration]"[33] which regulates the institutions.

To date, we have not broken these cases out from the other Financial Institution cases, but may decide to do so in future cases. Nevertheless, below is a table and corresponding chart depicting the number of major embezzlement cases at credit unions that we have chronicled over the past 6 years:

Year	# Cases
2013	16
2012	17
2011	10
2010	12
2009	6
2008	10



6 Year Industry Analysis

We did an analysis of the six year aggregated data (which included a total of 2,676 case studies) comparing the various industries by frequency of incident. The top industry categories are as follows (with corresponding losses and percentages):

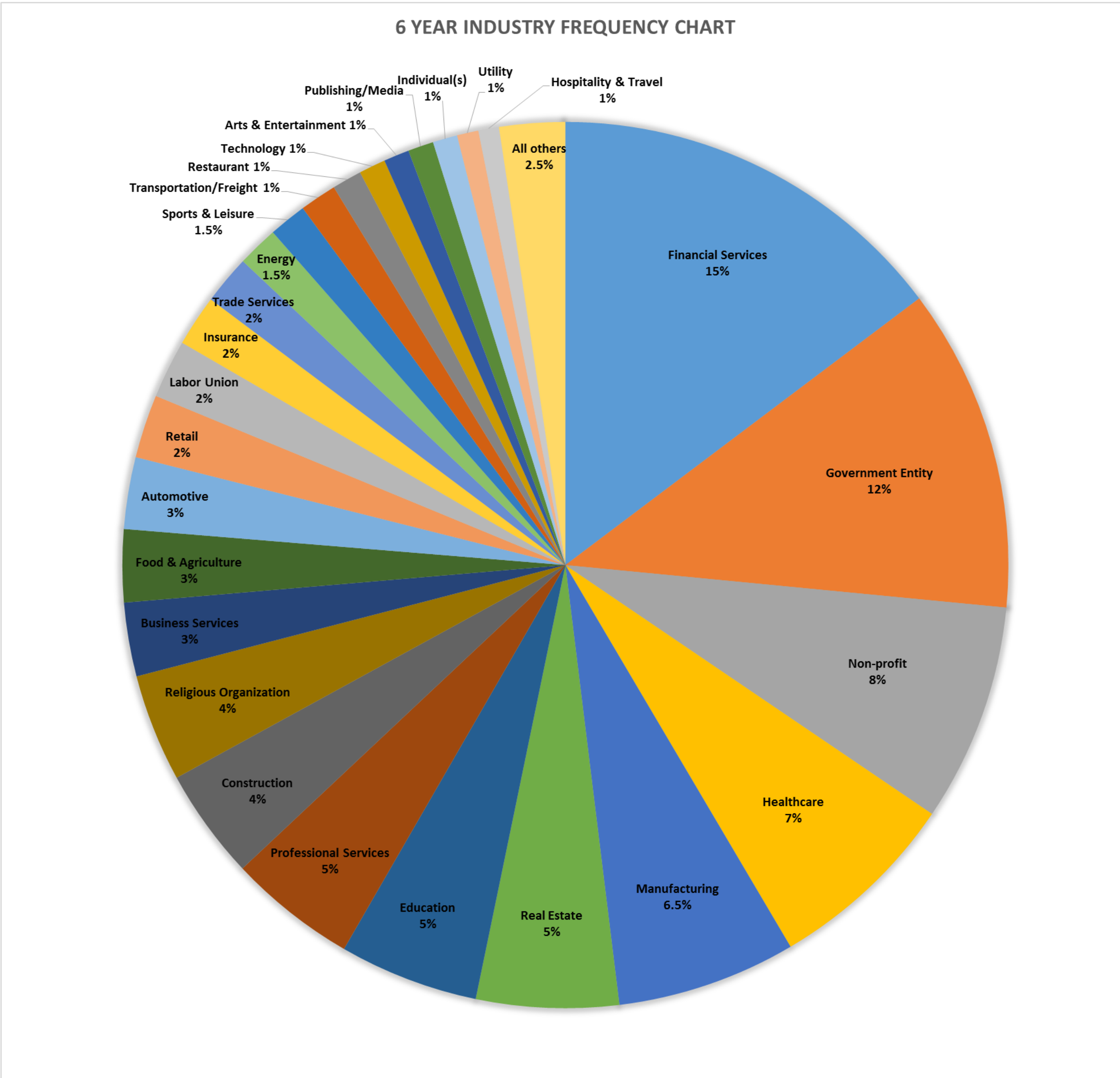
[32] http://www.cutimes.com/2013/12/09/top-7-insider-credit-union-fraud-cases-of-2013
[33] http://www.cutimes.com/2013/12/09/top-7-insider-credit-union-fraud-cases-of-2013

Industry	Frequency	% Total	Amount	% Total
Financial Services	394	14.7%	$925,121,000	28.8%
Government Entity	316	11.8%	$298,901,000	9.3%
Non-profit	213	8.0%	$111,129,000	3.5%
Healthcare	188	7.0%	$159,009,000	4.9%
Manufacturing	175	6.5%	$244,939,000	7.6%
Real Estate	139	5.2%	$129,146,000	4.0%
Education	136	5.1%	$112,561,000	3.5%
Professional Services	125	4.7%	$135,843,000	4.2%
Construction	108	4.0%	$130,035,000	4.0%
Religious Organization	105	3.9%	$63,266,000	2.0%
Business Services	72	2.7%	$54,361,000	1.7%
Food & Agriculture	71	2.7%	$87,327,000	2.7%
Automotive	70	2.6%	$56,336,000	1.8%
Retail	62	2.3%	$95,187,000	3.0%
Labor Union	57	2.1%	$60,465,000	1.9%
Insurance	50	1.9%	$68,011,000	2.1%
Trade Services	48	1.8%	$24,188,000	0.8%
Energy & Natural Resources	40	1.5%	$93,790,000	2.9%
Sports & Leisure	37	1.4%	$14,684,000	0.5%
Transportation/Freight/Logistics	36	1.3%	$20,654,000	0.6%
Restaurant	29	1.1%	$18,519,000	0.6%
Technology	26	1.0%	$40,357,000	1.3%
Arts & Entertainment	25	0.9%	$30,249,000	0.9%
Publishing/Media	25	0.9%	$25,330,000	0.8%
Individual(s)	24	0.9%	$19,832,000	0.6%
Utility	21	0.8%	$10,337,000	0.3%
Hospitality & Travel	20	0.7%	$9,506,000	0.3%
All others	64	2.4%	$173,976,000	5.4%

Clearly the Financial Services category, especially when one adds Insurance companies, is the most frequent victim of major embezzlements. This category also has by far the greatest losses. Government entities are second, followed by Non-profits. However, when one combines Religious organizations with Non-profits, the two slightly edge Government entities in overall number of major embezzlement cases. So waste, fraud and abuse in government continues unabated. No surprise there. Non-profits and Religious organizations, with their relative weak financial control structures and oversight, will continue to be common victims of this type of fraud.

What is interesting to note are some of the categories that *are not* on the above list: Telecommunications (8 cases); Defense (5 cases); and Pharmaceuticals (4 cases). Does this mean that these types of industries have better control structures than most or have they just been lucky these past six years? My sense is the former hypothesis is the more accurate one. All three of these categories are highly regulated industries, but not Government entities themselves. Under the scrutiny, their financial controls are undoubtedly stronger than most industries. In addition, these categories also tend to be large companies, rather than small family owned businesses – the latter of which we believe have weaker controls.

Below is a pie chart depicting the breakdown of the industry groupings by their respective incident frequency rates over the past 6 years:



Geographic Embezzlement Distribution

Each year, as part of our examination of the embezzlement data gathered, we identified the state in which each embezzlement case occurred. We also look at the distribution of these cases across the US and present a chart (see below) identifying the top dozen states with the highest number of major embezzlement incidents in the given year. Further, we present charts for the states with the largest gross dollar losses and the highest average dollar losses – and determined the corresponding percentages of overall cases/losses for these states (see below).

The charts are noteworthy, but we do not believe that these analyses alone are adequate to derive any valid conclusions about which states are more likely to see a major embezzlement case compared to any other. To do this historically, we created a loss ratio formula for what we have termed and defined as the **Embezzlement Propensity Factor™** ("EPF"). The derivation of this factor attempts to be a more accurate way of ranking the states on the basis of their likelihood to experience losses due to a major embezzlement.

The development of the EPF was based upon our original theory that the amount of fraud in a given discreet geographic area (in this case each US State) is proportional to the amount of economic activity in that same jurisdiction. We believe that this is a reasonable theory and in our prior Marquet Reports, have relied upon this proportion solely for the bases of the EPF. Specifically, our original formula for the EPF for a given state was a ratio of the percent share of dollar losses in that state of the total US losses to the percent Gross Domestic Product (GDP) that state contributes to the overall US GDP. In mathematical terms, we can represent our original formula as follows:

$$\text{EPF} = (\lambda \div \gamma)$$

where:

λ = percent State share of losses to overall US losses
γ = percent State share of total US GDP

However, there is another reasonable theory that the number of frauds in any given jurisdiction is proportional to the population of that jurisdiction. We could create an alternate EPF which would be the ratio of the percent share of major embezzlement cases for a given state of the total number of US cases to the percent population of that state to the whole US. This alternate formula can be represented mathematically as follows:

$$\text{EPF} = (\psi \div \varphi)$$

where:

ψ = percent State share of cases to overall number of US cases
φ = percent State share of population of total US population

Sparsely populated states with small economies like Vermont, Montana, South Dakota and others, may have had a concern that with our original formulation, EPF = $(\lambda \div \gamma)$, a high EPF value may be the result of upward skewing from a single anomalous case in a given year. As an example, Vermont ranked second in our list last year behind Iowa, the latter of which had clearly been skewed upwards by the Wasendorf case. We recalculated last years' ranking with the alternative EPF formula and found that Vermont actually ranked number one, ahead of Iowa – that is, the state with the highest EPF or likelihood to see a major embezzlement case. This was true with the other top ranked states in last years' ranking as well.

Our conclusion based upon this test is that the two formulae are reasonable and derive results fairly consistent and complimentary to each other. In order to iron out the anomalies, we have decided to re-define the EPF formula as the *average* of the two formulas described above. This way we will take into account not only the relative losses for a given state, but also the relative likelihood of a major incident, based upon population. Therefore, the new formula for our Embezzlement Propensity Factor™ will be defined mathematically as follows:

$$EPF = \tfrac{1}{2} \{(\lambda \div \gamma) + (\psi \div \varphi)\}$$

where:

λ = percent State share of losses to overall US losses
γ = percent State share of total US GDP[34]
ψ = percent State share of cases to overall number of US cases
φ = percent State share of population of total US population[35]

To recap what this means, the new Embezzlement Propensity Factor™, based upon the assumptions in our two theories and all else being equal, should be 1.00 for every state. However, we know this will never be the case – therefore any state with an EPF of greater than one has a disproportionately higher embezzlement propensity than it should – and those with an EPF of less than one have a disproportionately lower risk of embezzlement. The EPF for all states can then be compared and ranked in an appropriate and meaningful way.

The 12 states with the highest number of major embezzlement cases from the 2013 study are as follows:

State	# Cases	% all Cases
CA	68	12.3%
VA	33	6.0%
IL	25	4.5%
MI	25	4.5%
PA	25	4.5%
MO	20	3.6%

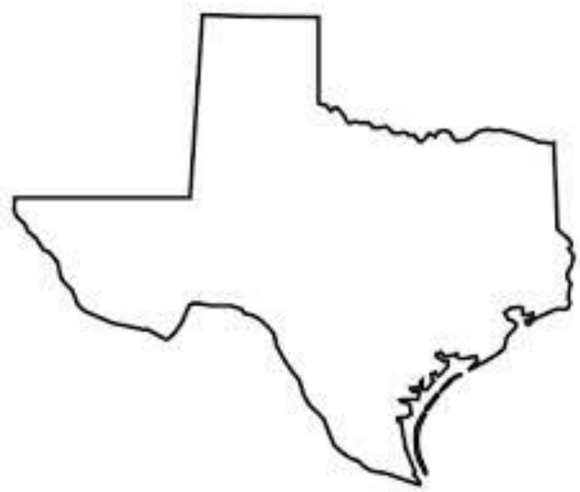
[34] 2013 U.S. Bureau of Economic Analysis
[35] 2010 US Census Data

NC	20	3.6%
NY	20	3.6%
TX	19	3.4%
MA	16	2.9%
CT	14	2.5%
GA	14	2.5%

The 12 states with the greatest overall losses from major embezzlement cases from the 2013 study are as follows:

State	$ Gross loss	% all losses
TX	173,279,000	29.2%
CA	55,996,000	9.4%
IL	41,811,000	7.0%
VA	38,743,000	6.5%
GA	35,196,000	5.9%
MO	17,027,000	2.9%
FL	13,883,000	2.3%
NY	13,299,000	2.2%
OH	13,267,000	2.2%
NV	12,382,000	2.1%
DC	11,691,000	2.0%
PA	11,271,000	1.9%

The states with the highest average loss from major embezzlement cases from the 2013 study are as follows:



State	$ Ave Loss
TX	9,119,947
NV	3,095,500
SD	2,623,000
GA	2,514,000
DC	2,338,200
ID	1,686,250
IL	1,672,440
FL	1,262,091
VA	1,174,030
OR	1,060,600
OH	1,020,538
ND	1,000,000

The last two tables above show Texas at the top, skewed significantly above the rest as a result of the Pircher/Kimes case.

In the table below, we compare the 12 states with the highest Embezzlement Propensity Factor™," for the 2013 data, as defined above. Those states with an EPF of greater than one (1.0) are states that have a higher propensity to experience losses from major embezzlement cases than the expected norm. Conversely, those states with EPFs below 1.0 have a lower risk for embezzlement loss than the expected norm.

The 12 states with the highest Embezzlement Propensity Factor™ (EPF) from the 2013 study are as follows:

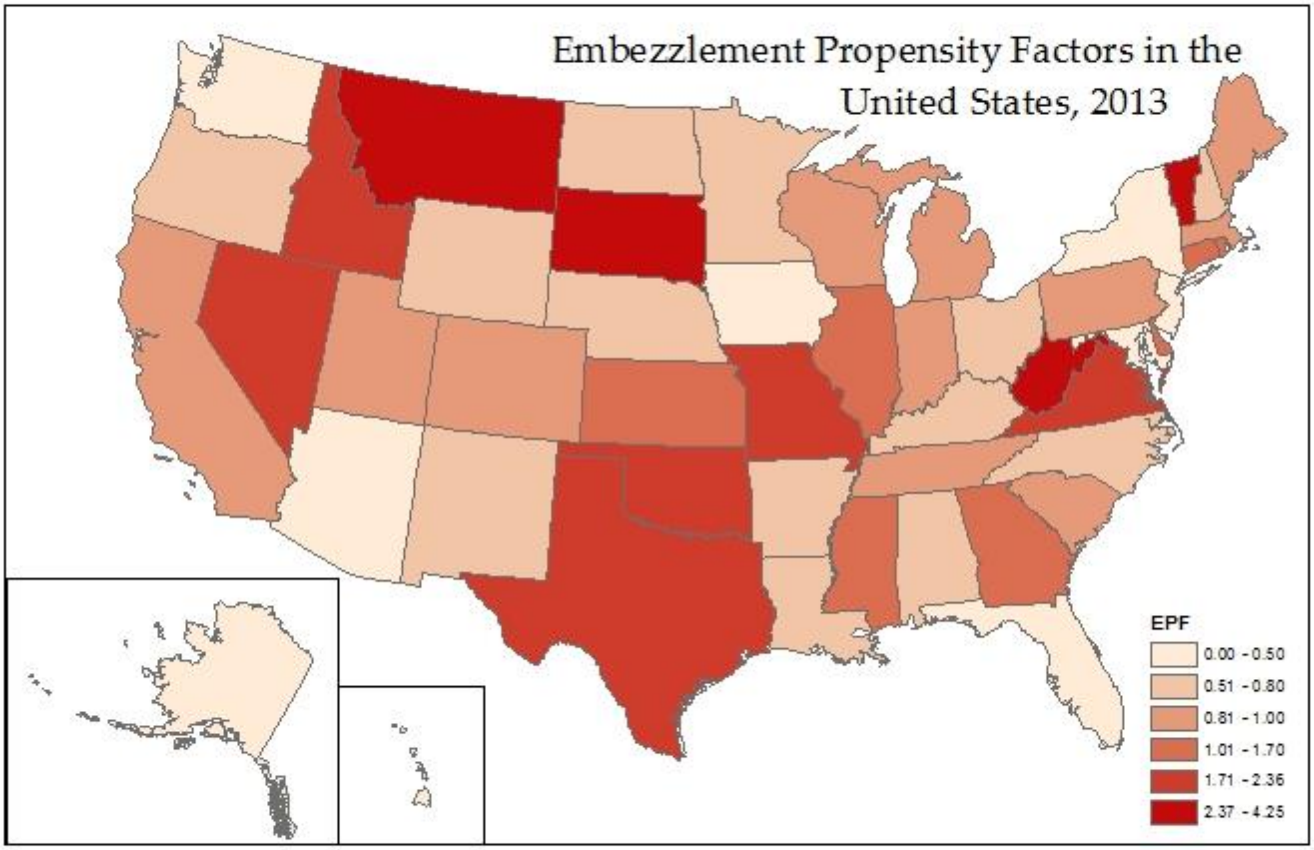
State	Cases	% Cases	$ Losses	% Losses	$Ave Loss	% US GDP	% US Pop	EPF
VT	7	1.3%	$ 2,291,000	0.4%	$327,286	0.18%	0.20%	4.25
DC	5	0.9%	$ 11,691,000	2.0%	$2,338,200	0.68%	0.19%	3.83
WV	13	2.4%	$ 6,699,000	1.1%	$515,308	0.44%	0.59%	3.27
MT	7	1.3%	$ 3,504,000	0.6%	$500,571	0.26%	0.32%	3.13
SD	2	0.4%	$ 5,246,000	0.9%	$2,623,000	0.27%	0.26%	2.36
VA	33	6.0%	$ 38,743,000	6.5%	$1,174,030	2.75%	2.56%	2.35
ID	4	0.7%	$ 6,745,000	1.1%	$1,686,250	0.37%	0.51%	2.26
OK	14	2.5%	$ 10,182,000	1.7%	$727,286	1.06%	1.20%	1.87
TX	19	3.4%	$173,279,000	29.2%	$9,119,947	8.94%	8.04%	1.85
MO	20	3.6%	$ 17,027,000	2.9%	$851,350	1.66%	1.91%	1.81
NV	4	0.7%	$ 12,382,000	2.1%	$3,095,500	0.80%	0.86%	1.73
MS	11	2.0%	$ 4,429,000	0.7%	$402,636	0.62%	0.95%	1.64

This year, we also identified the 12 lowest risk states for major embezzlement in our 2013 study. That is, those states with the lowest Embezzlement Propensity Factors™. These are in order:

Hawaii	0.00
Washington	0.33
Arizona	0.37
Iowa	0.39
Florida	0.41
Maryland	0.42
New York	0.43
New Jersey	0.47
Alaska	0.49
Arkansas	0.52
New Hampshire	0.59
Wyoming	0.59

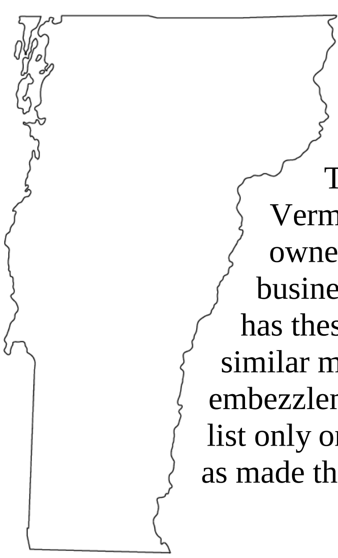
Hawaii had zero cases and therefore its EPF was zero for the year. Wyoming and Alaska only had one case each and New Hampshire only had 2. Iowa had 3 and Arkansas 4. By contrast, New York had 20 cases, Florida 11 and New Jersey 10.

Below is a map of the US depicting the relative 2013 EPF risk factors for each state in the US:



EPF Risk Map by Kelly M. Verna

<u>Chris Marquet commentary about Vermont's embezzlement issue</u>



This year Vermont tops the list of all states in the US – yet again and for the 3rd time in the six years we have been ranking them – with the *highest* risk for loss from embezzlement. It is not just that it is a small state with a relatively small population and relatively small economy. There are real cases of embezzlement that have been going on in Vermont in recent years. One thing we believe to be true is that small family owned businesses experience higher embezzlement rates than large businesses due to a reliance, in many cases, on a single bookkeeper. Vermont has these kinds of businesses in spades. Nevertheless, many other states have similar makeup and do not show up on our list of highest risk states for embezzlement. Take neighboring New Hampshire, for example. It has made the list only once in the past six years (toward the bottom in 2009) whereas Vermont as made the list five times, and actually topping it three times.

I have spent much time in the Green Mountain State over the years, but cannot entirely explain why there seems to be such an embezzlement problem. One of my best friends from my Dartmouth College days, who has lived in Vermont for many years, suggested to me that the problem is due, at least in part, to the "trusting nature" of Vermonters. This may be the case, but unfortunately it is a subjective quality and unquantifiable for our purposes.

I recently had the honor of being invited to speak before the Vermont Government Finance Officers Association ("VTGFOA") at their annual meeting. I asked the group whether they felt that Vermont had an embezzlement problem. Not a lot of hands were raised at the outset. I then proceeded to present a litany of cases in recent years, both in which Vermont government entities were victimized (the VTGFOA constituency) as well as numerous local businesses and non-profits. I presented data showing other states like New Hampshire, North Dakota, Delaware, Wyoming and Hawaii which do not seem to be experiencing the problem to the same degree.

I believe I was successful in shifting some of the thinking in the room that day – but therein lies part of the problem. If one does not realize there is an issue, it is hard to address it. We understand that the Vermont State Government has taken steps in response to all of these cases to require greater financial controls and transparency in finance for states, municipalities and state/municipal entities.

Let us hope that as these take hold – and the public, including business owners and other enterprise stakeholders, becomes more aware and educated about the problem – we will see a decline in the risk factor for embezzlement associated with Vermont in the years ahead.

<u>6 Year State Risk Factor Ranking Analysis</u>

We prepared a simple table below identifying the states that have made the list of the 12 highest risk factor states for embezzlement over the past six years at least 3 times:

Vermont	5
Florida	4
Missouri	4
Montana	4
Virginia	4
Connecticut	3
Iowa	3
Nevada	3
New York	3
Oklahoma	3
Rhode Island	3
South Dakota	3
West Virginia	3

These states are quite diverse – from New York to Vermont; Florida to South Dakota; Virginia to Montana; etc. We will continue to keep an eye on this with a view toward conducting a comprehensive 7 or 8 year study next year or two.

JUDICIAL CONSEQUENCES

Sentencing Analysis


Henry Kunter – Eagle County mug shot

We determined the net prison term sentences for the major embezzlement perpetrators in our study and conducted some analysis of these numbers in an effort to see if any relevant conclusions could be drawn. We were able to determine the prison sentences in 345 of the 554 cases analyzed in *The 2013 Marquet Report on Embezzlement*. The prison terms ranged from probation or home confinement to 70 years in jail (840 months). The average prison sentence was 44 months (about 3 and 2/3 years), for an average embezzlement of about $1.25 million with an average duration of 4.8 years.

We find dramatic disparity in sentencing for this crime – due to many variables, including Federal v. State prosecution as well as State by State variances. For example, **Henry Yee Kunter**, 37, of New Castle, Colorado was sentenced to 8 years in prison for embezzling $136,000 from the non-profit **Vail-Eagle Valley Rotary Club** where he had served as treasurer.[36] He also got a concurrent 6 year term for embezzling an additional $88,000 from his employer, **Crystal River Oil and Gas,** for whom he also served as bookkeeper. Total embezzled, $224,000. In a classic vendor fraud scheme, Kunter began writing checks to dummy companies he controlled in 2009 and continued for about 3 years until he got caught. Ironically, Kunter actually taught accounting at **Colorado Mountain College**. In another twist of irony, Kunter's father was also treasurer of the Vail-Eagle Valley Rotary Club until he was stricken with Parkinson's disease and had to resign.

On the other hand, **Marci Johnson**, 46, received no jail time for embezzling what is believed to be $1.2 million from **Spaeth Communications**, a PR firm based out of Dallas, Texas, over an 8 year period.[37] Johnson had gone to work for the company in 1987 as an intern, right out of college. Johnson reportedly became Chief Administrative Officer in 2003 with complete access to the books and credit card accounts – writing checks for her own benefit and abusing corporate credit cards. As for her sentence, she got to spend the first six months of it in home confinement with electronic monitoring. One difference between these cases was that the Kunter case was handled on the state level while the Johnson case was prosecuted on the Federal level.

We broke down the average sentences for various theft levels, as outlined in the graph and chart below:

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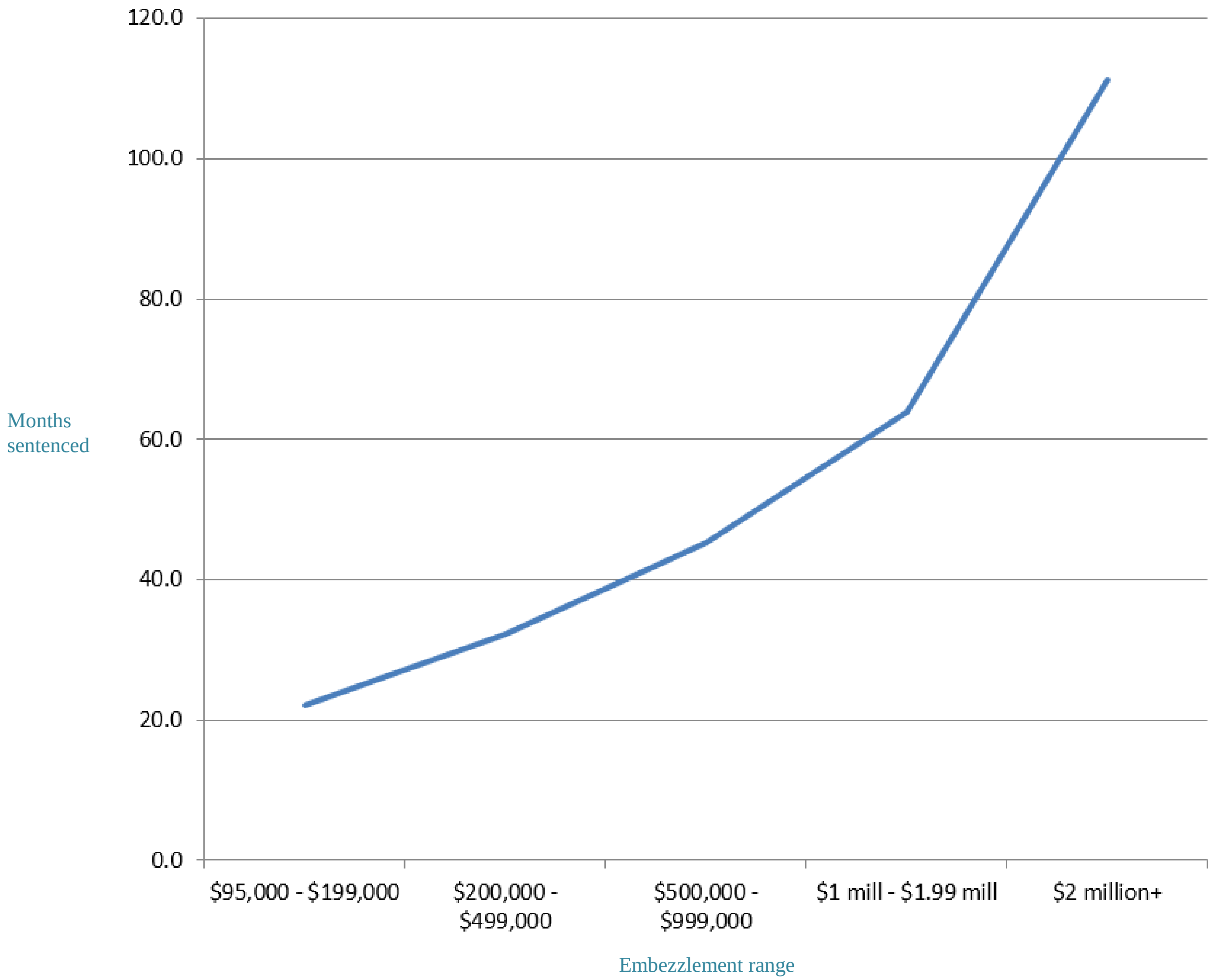
[36] http://www.vaildaily.com/news/8174753-113/kunter-club-oil-rotary

[37] http://crimeblog.dallasnews.com/2013/09/ex-spaeth-communications-exec-who-embezzled-more-than-772000-sentenced-to-18-months-in-federal-prison.html/



Embezzlement Range	Avg. Sentence in Months (years)
$ 96,000 - $199,000	22.1 (1.8)
$200,000 - $499,000	32.2 (2.7)
$500,000 - $999,000	45.2 (3.8)
$1 mill. - $1.99 mill.	63.9 (5.3)
$2 million +	111.3 (9.3)

Both the graph and chart demonstrate that the average prison sentence increases with the magnitude of the theft –as we would expect based upon prior years' analysis. The ten states (with a sampling of at least 3 cases) with the longest average sentence handed down in the 2013 study include the following:

State	Months (years)
GA	165 (13.8)
ID	108 (9.0)
MS	93 (7.8)
CO	89 (7.4)
TX	78 (6.5)
AZ	55 (4.6)
MI	66 (5.5)
FL	46 (3.8)
OR	46 (3.8)
NY	45 (3.8)

The ten states (with a sampling of at least 3 cases) with the shortest average sentence handed down in the 2013 study include the following:

State	Months (years)
MD	18 (1.5)
AR	18 (1.5)
AL	20 (1.7)
WA	20 (1.7)
KS	20 (1.7)
SC	20 (1.7)
DC	20 (1.7)
VT	21 (1.8)
LA	24 (2.0)
WY	24 (2.0)

Admittedly this is a fairly simplistic way of looking at sentencing variances. We intend to distinguish between Federal and State cases going forward and perhaps trying to break this down a little further. We notice that Vermont and DC, both jurisdictions that made our highest risk locales for 2013, were also on the list for the shortest average sentences. Correlation between risk and reward? Perhaps.

Other Consequences

These embezzlements often have a devastating effect on their victims – the companies themselves, their owners, employees, suppliers and vendors – not to mention their clients. We have seen many cases in which business enterprises have gone bankrupt or were otherwise closed down as a result of these crimes. For example, **Trendset, Information Systems, Inc.**, a freight audit firm based in Greenville, South Carolina. It went out of business after **Julie Greene Tucker**, 52 – the company's longtime Director of Administration – embezzled nearly $600,000 from the company in a period of just 15 months. Tucker wrote checks and wired funds to herself and her husband, **James Dean Tucker**, 54, who enjoyed a lavish lifestyle, and, according to prosecutors:[38]

> "Julie and James Tucker used the embezzled funds to perform major home renovations, purchase a second home, and buy three luxury vehicles for themselves and an additional vehicle for the daughter of a Trendset co-worker. Court records indicate that the couple joined a local country club where they hosted a lavish Christmas party for family and friends. The couple also used the embezzled funds to pay for several personal vacation trips. According to yesterday's sentencing hearing, Julie Tucker also spent well over $100,000 in jewelry purchases."

At least the Tuckers' betrayal was discovered and the two were prosecuted for tax evasion for not paying taxes on the ill-gotten gains. On April 12, 2013, Julie Tucker was sentenced to 33 months in federal prison and James Tucker was sentenced to 8 months of "house arrest." In addition, the Tuckers were ordered to pay $191,049 in back taxes to the IRS and Julie Tucker was ordered to pay $590,128 in restitution to Trendset.[39] Sadly, the company was forced into Chapter 11 involuntary bankruptcy around the time of the Tuckers' sentencing, and its assets were sold in the bankruptcy liquidation.[40]

Most organizations survive the trauma of embezzlement, but not without a great deal of hardship. Many experience layoffs, cutbacks and salary freezes, just to survive. As we know, small businesses, non-profits and religious organizations are particularly hard hit. Non-profits have the added burden that they experience difficulty raising funds and donations after a breach of fiduciary trust like an embezzlement.

In the end, business owners often have to pick up the pieces and try to move on to support their families. Chris Marquet recently interviewed Cheryl Obermiller, the founder and CEO of Obermiller Construction Services in Harrisonville, Missouri on his *Fraud Talk* online radio program.[41] Several years ago she found out that her longtime bookkeeper, **Tammie Lynn Cowell**, had been embezzling hundreds of thousands of dollars from her business by not paying the tax authorities and writing checks to herself over a nearly 6 year period. Cheryl found out about the fraud by accident – the Midwest had been hit by a blizzard and her bookkeeper could not make it in; Cheryl picked up the mail to find a letter from the IRS threatening to seize the assets of the business for failure to pay taxes. Needless to say she was shocked. Cheryl called the FBI and worked with them to build the case and prosecute Cowell – who plead guilty in March 2011 to bank fraud charges and admitted she embezzled nearly $400,000 from the company.[42] Cowell was ultimately sentenced to 33 months in federal prison, plus restitution of nearly half a million dollars. Cheryl receives about $100 per month from Tammie, who has since been released from prison, effective April 18, 2014 and now has a 5 year probationary period. Cheryl pulled out all the stops with her employees and family members to try to get the

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[38] http://www.fbi.gov/charlotte/press-releases/2013/greer-husband-and-wife-sentenced-for-filing-false-tax-returns
[39] Ibid.
[40] http://www.gsabusiness.com/news/48026/print
[41] Listen to the interview here: http://www.voiceamerica.com/episode/80582/fraud-talk-a-victims-perspective
[42] http://www.justice.gov/usao/mow/news2011/cowell.ple.html

company back on track. She contacted all of her vendors to workout payment deals. She immediately worked with the IRS to deal with the tax issues which were significant. Luckily, with a lot of hard work, the company survived, but it took quite some time and was touch and go for a while. Cheryl is now in the process of publishing a book about her experience as a victim of embezzlement due to be released in the Spring 2015 titled, My Accountant's Drawers, which not only tells her compelling story, but also provides a great deal of insight and lessons learned, including simple things small business owners can do to prevent embezzlement.[43]

The perpetrators themselves have a range of responses once they are caught. As we have noted previously, many quickly confess (although never to the true amount they stole), seem genuinely contrite and apologetic. Others do not appear to demonstrate any remorse. Still others, attempt or commit or succeed in committing suicide. In the 554 cases we reviewed in 2013, there were 7 such suicides/attempted suicides that we know about.

There was one noteworthy case from 2013 that involved murder in an attempt to cover up an embezzlement. On October 3, 2013, Andy James Brown, 36, was arrested on charges he allegedly embezzled $100,000 from an unnamed company. Meanwhile, Brown's boss at the accounting firm he worked for, David Locey in Sturgis, Michigan, was found dead the prior morning at his office; police suspected that Locey's death was linked to the embezzlement case.[44] Authorities believe that Locey had discovered Brown had embezzled from one of their accounting clients and apparently confronted him about it. It should be noted that Brown had a prior conviction in 2005 for embezzling $200,000 from another company and lost his CPA license. Locey knew about the prior embezzlement but wanted to give Brown another chance, according to media reports.[45]


Andy James Brown mug shot, Kalamazoo County, MI

Brown was ultimately charged with the murder of Locey. Court testimony revealed that had a "heated meeting" about the embezzlement accusations immediately prior to Locey being found dead with 3 shots to the head. Forensic experts found gunshot residue on Brown's clothes – a fact that was introduced as evidence at trial. On July 14, 2014, Brown was found guilty of second degree murder by a jury and sentenced to 39 years in prison on August 29, 2014.[46] The embezzlement charge appears to have not been pursued in lieu of the murder case.

Cases like this are always tragic and we are glad Brown is paying the price for his misdeeds.

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[43] My Accountant's Drawers will be available Spring 2015 via Amazon
[44] http://www.mlive.com/news/kalamazoo/index.ssf/2013/10/kalamazoo_accountant_charged_i.html
[45] http://abcnews.go.com/US/michigan-accountant-accused-killing-boss-embezzlement/story?id=24348449
[46] Ibid.

APPENDIX A: DETERENCE & DETECTION MEASURES

Over the years, our analysis has clearly and definitely spotlighted several truths regarding employee theft which suggests a number of practical ways to deter, or early in the event, detect would-be embezzlers. One of the key elements of many embezzlements revolve around an atmosphere which is too trusting and/or lackadaisical regarding effective business controls over operational and administrative functions. For instance, since the vast majority of embezzlers have their hands on the purse strings in one manner or another; extra scrutiny should be placed upon those employees with fiduciary responsibilities. Extra screening, auditing, rescreening, segregation of duties and rotation of responsibilities, is recommended. Since the majority of embezzlements involve forged or unauthorized check writing, more stringent controls should be enacted with respect to cash control, check writing and account reconciliation.

Effective deterrence and detection of all business irregularities stand on three key operational pillars. First, a rational and disciplined organizational structure must be implemented to effectively segregate sensitive duties. Second, robust oversight of personnel by the executive team which in turn must be coupled with effective oversight of the executive team by the board of directors or in the case of government entities , by the supervisory board. Third, the implementation of a system of interlocking business control oversight tools including strong independent auditing, ethics hotline reporting and robust response to suspicions of business irregularities. These key elements form the core operational principle that; probable detection is effective deterrence.

It is clear that many embezzlers conduct their schemes over many years and their lifestyles typically change. Background checks should be conducted on fiduciary employees every 3-4 years after they are employed. Any employee scuttlebutt or rumors concerning significant lifestyle changes should be examined by an independent investigative function. Likewise, if an employee is believed or understood to have a gambling problem, extra scrutiny of their handling of finances should be made in addition to trying to get them the counseling they need. Given the duration of these schemes and the control required to execute them, business entities, but particularly non-profits and religious organizations, should rotate their financial personnel every few years.

In any event, below is a listing of specific preventive strategies and tactics to address the problem of employee theft:

- Do not allow a single individual access to all aspects of company finances and accounting. Make sure there is a division of duties between the financial operations (especially check processing) and the accounting for financial activities
- Regularly rotate responsibilities for accounting personnel.
- Require accounting and financial personnel to take time off and vacations. Embezzlers often take little or no vacations to perpetrate their schemes.
- Do not allow those responsible for cutting checks to take work home.
- Require two signatories on outgoing checks above a certain nominal amount. One of these signatories should be from outside the finance and accounting functions.

- Segregate the reconciliation of all checking accounts from check processing, check authorization and check signing functions. Examine cancelled checks regularly during reconciliation and have the reconciliation process spot checked by the outside auditors. One common method of embezzlement involves the forgery of checks. Another is to have them payable to the embezzler or their personal vendors.
- Maintain unused checks in a lockbox. Be sure all checks, purchase orders and invoices are numbered consecutively and reconcile any of those missing.
- Conduct regular as well as random audits. Owners should take a hands-on management approach by physically spending time with the bookkeeping department.
- Audit petty cash regularly.
- Audit company credit card charges regularly.
- Audit expense reports regularly.
- Be sure each payment, electronic or otherwise, is backed up with appropriate documentation.
- Backup financial records daily.
- Make and reconcile daily deposits. Use a "for deposit only" stamp for check deposits. The person recording cash receipts should be different from the one making the actual deposits.
- Bank reconciliations should be made by a different person than those that handle cash receipts and cash disbursements.
- Know who your vendors are. Embezzlers often create phony vendors and submit fraudulent invoices for payment.
- Examine payroll records regularly. Some embezzlers issue themselves extra paychecks and bonuses through the payroll system.
- Investigate customer and vendor complaints promptly. If vendors are not being paid as expected, it may be a sign that the payment checks are being diverted.
- Conduct pre-employment background checks for all personnel with fiduciary duties.
- Conduct employee background checks on current employees on a periodic basis, particularly those in financial positions.
- Both the HR and legal departments should pay close attention to the employee grapevine and any suggestions that someone has a gambling problem should be immediately addressed.
- Prosecute perpetrators, creating a permanent record future employers can find.

APPENDIX B: INVESTIGATIVE RESPONSE

Allegations or suspicions of employee misconduct such as embezzlement require immediate attention. Facts should be gathered initially as quickly and quietly as possible to determine the veracity of such an allegation. An institution's response to the revelation of this type of white collar shenanigans is nearly as important as preventing or detecting them in the first place. A swift independent investigation, coordinated with internal and/or external legal counsel must ensue, beginning with a small circle of those who need to know and expanding from that point. Such an investigation will involve an analysis of institutional records as well as possibly conducting select interviews and a possible "external" investigation which would focus on lifestyle, conflicts of interest and asset identification.

The most typical records under your control will be financial books and records. And as such, an independent forensic investigative accounting review will almost always be necessary to quantify the loss and to determine how the scheme(s) worked and to where the monies were funneled and from which sources. The accounting analysis will also be necessary for any future claim under a fidelity policy in the form of a "proof of loss" as well as the basis for prosecutorial referral.

Interviews of select employees and others may also be part of the process. Employ the reverse onion peel strategy, working from the innermost circle outward as needed which helps contain and control the investigation. This process will almost always involve an interview of the suspected employee at some point. If strong enough evidence is gathered quickly, such a confrontational interview may be beneficial and even elicit a confession. In our experience, interviews should be conducted in a "two on one" format, particularly with the suspect in question. This allows for corroborating testimony of what was said, which is often necessary. Use caution, however, because we have found that early confessions are often incomplete – many perpetrators are willing to cop to a small amount of theft when in fact the scheme may have spanned many years and involved a variety of different schemes.

As soon as enough evidence is gathered to satisfy institutional authorities, the suspected employee should be immediately suspended or terminated, including all computer, banking, communications and other access rights and privileges. In the event, such a decision should be made within hours or a few days at most, but certainly should not be delayed much longer – in order to minimize further losses as well as to preserve crucial potential evidence. Electronic devices owned by the company should be confiscated and analyzed for evidence.

The internal investigation will necessarily continue after the employee is removed. Our research into the embezzlement phenomenon indicates that many perpetrators use more than one scheme – oftentimes several – to steal from their employer. Further, as we know, these thefts will have invariably spanned a longer period of time than originally thought. A thorough investigation will therefore look into all aspects of the suspected perpetrator's employment responsibilities and venture as far back as the time of their hiring. While criminal proceedings will be limited by a statute of limitations on these kinds of crimes, the victim organization should attempt to document the entire extent of the loss – both for insurance recovery purposes but also for potential civil restitution beyond any criminal order.

Any chance at recovery or restitution may also depend upon an independent "external" investigation. While it is true that many embezzlers spend their ill-gotten gains in such a way as to make restitution difficult – such as gambling, luxury travel, gifts to others and purchases of consumables, many other types of assets can be identified and attached or seized. Homes, luxury vehicles, watercraft, livestock, other business interests and luxury items such as art, jewelry and designer clothing may be worth seizing and auctioning off. Third party beneficiaries of the theft – often family members such as spouses, children, parents and others – are also potential sources for recovery. Bank accounts, retirement accounts, investments accounts, such as brokerage and mutual funds, can be identified through subpoena in either a civil or criminal proceeding. In some cases, a judge can be convinced to issue an order freezing assets and giving a forfeiture order.

Finally, as previously noted, we strongly recommend that all embezzlement cases ultimately be referred to authorities for prosecution. Failure to do so 1) does not adequately punish the perpetrator; 2) provides no discouragement for potential future embezzlers; 3) arguably hurts employee morale and productivity; and 4) puts future employers of the perpetrator at risk for the same type of theft. In general, the better the internal investigation and "packaging" of the evidence, the swifter the prosecutorial response. If federal or state prosecutors are not interested due to the size of a given employee theft, civil action is always an option and still achieves some of the above stated goals. In either case, expert legal and investigative counsel will be required throughout the process. The timing of a criminal referral must also be considered. Once it is made, any civil action will be stayed pending the outcome of the criminal proceedings – which often take time.

About Marquet International, Ltd.

Marquet International, Ltd. is a boutique investigative, litigation support and due diligence firm based in Boston, Massachusetts. Led by longtime industry expert Christopher T. Marquet, the firm is routinely engaged by corporations and their counsel to assist with internal investigations, corporate fraud and allegations of employee misconduct. Marquet International is also regularly retained to conduct thorough due diligence inquiries on key individuals in business entities and corporate transactions. Our interest in embezzlement cases was piqued after the launch of our *Fraud Talk* blog, wherein we regularly document active cases of employee misconduct and white collar fraud, including major embezzlements of more than $100,000. We hope this series of reports provides insight into this type of corporate fraud. If you have questions or comments, we welcome feedback at info@marquetinternational.com.

About the Author

Christopher T. Marquet started his career in the investigative, security consulting and litigation support industry in the summer of 1983 when he joined Kroll Associates after graduating from Dartmouth College with a triple major in Physics, Economics and Philosophy. Chris spent 19 years at Kroll in a variety of staff, consulting and executive positions, culminating as the head of Kroll's Boston office. In 2002, he co-founded Citigate Global Intelligence with a group of other former Kroll executives and ultimately founded Marquet International, Ltd., in early 2006. He is currently the host of *Fraud Talk*, a weekly online radio program on the Voice America Business Radio Network which can be heard here: http://www.voiceamerica.com/show/2349/fraudtalk. Chris is also the author of a popular blog called *Fraud Talk* here: http://fraudtalk.blogspot.com.

During his lengthy career, Chris has been involved in thousands of business intelligence, investigative, litigation support, and security consulting projects around the world. These matters have been diverse and include, but are not limited to, the following: due diligence; general litigation support; investigations into intellectual property theft; environmental disputes; fraud investigations; workplace violence; and employee misconduct; hostile takeovers and proxy battles; competitive intelligence; corporate security; executive protection; crisis management; and insurance disputes.

Chris has authored numerous articles and white papers, including the annual *Marquet Report on Embezzlement; The Marquet Report on Ponzi Schemes; Avoiding the Pitfalls of the Foreign Corrupt Practices Act; Investigating Employee Misconduct*; *Resume Fraud: The Top 10 Lies*; *Small Businesses Face Greatest Risk for Fraud & Embezzlement; Ethics in Investigations*; *Ponzi Schemers, Embezzlers and Fraudsters, Oh My!*; *Integrity Hotlines: Getting the Inside Word on Fraud, Waste & Abuse; Managing Global Security Concerns: Practical Considerations; Anticipating Workplace Violence Can Reduce the Threat; Do You Know Who You Are Hiring?; Post 9/11 & Enron Due Diligence Must Dig Deeper; Executive Air Travel Security Guidelines* and many others. Chris also lectures regularly on many of these and other topics as well. These articles and white papers can be obtained at www.marquetinternatioanl.com/articles.htm and http://www.marquetinternational.com/reports.htm.

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