

The Changing Face of Fraud

“Three things cannot be long hidden: the sun, the moon, and the truth.”—Buddha

By Tony Powell

Conventional wisdom holds that your typical fraud artist is a white, middle-aged male. However, studies reveal that most major embezzlers—those who steal from their own employer—increasingly are women. We spoke with Christopher T. Marquet, whose firm publishes the annual *Marquet Report on Embezzlement*, to find out more. Marquet and his firm recently analyzed five years of case studies, including more than 2,100 cases of employee theft exceeding \$100,000 and found that nearly two-thirds of the perpetrators were women. Year after year, according to his research, more women are betraying their employers’ trust by stealing vast sums of money over long periods of time. Marquet has more than 30 years of professional experience in the investigative, litigation support, business intelligence, and security consulting industry.

CCH: How has the profile of who embezzles changed?

Marquet: The conventional wisdom is that your usual fraud artist is a middle-aged, white male. The middle-aged part is still true, but based on statistics I’ve compiled over the last five years and the cases I see pouring into my in-box every day, women have become the leading perpetrators of embezzlement. Just so you know, we look only at *major* embezzlements. Not just your everyday stuff because you will never really know about most of them. Usually just the big ones get reported, cases where perpetrators get prosecuted or there’s a civil case of some sort. Even among those, not all the cases are known because many organizations still choose to sweep it under the rug to keep it quiet because they are worried about the embarrassment, their reputation, and so on.

Embezzlement is one of those crimes that is difficult to deal with. Number one, it’s your own employee who betrayed you. They betrayed your trust. Usually the major embezzlers are longtime employees. They have been with the organization for a while, and based on

our analysis their schemes, span on average four and a half years. So these people have been betraying people who trust them for a long period of time. Taking money on a regular basis adds up over time, not only hundreds of thousands of dollars, but sometimes millions and even tens of millions.

CCH: Why do these things go on for years? If the company is being audited, why does it take so long for auditors to finally see them?

Marquet: The thing is, auditors typically focus on making sure the numbers add up. They are not really looking for fraud *per se*. A good fraudster can make the numbers add up. So, they can hide their scheme by shifting money around, keeping a double set of books, that kind of thing, depending on the circumstances.

Although you do see embezzlement in large institutions, the more common victim is a small family-owned business. So, smaller businesses, religious organizations, nonprofits, those kinds of organizations tend to be the most frequent victims of embezzlement and employee theft. The reason for that is typically they have a very small financial control infrastructure—meaning they might have a single bookkeeper who has control of all aspects of the finances. When it comes time for the auditor to visit or to do the taxes, they provide all the information.

CCH: The classic lack of segregation of duties.

Marquet: When you don’t have segregated duties, when you put all your eggs in one basket, so to speak, you put yourself at huge risk for this kind of fraud. Human nature being what it is, there is always going to be somebody who is willing to take a advantage of the situation.

For that reason, if someone who is stealing, say, \$5,000 a month from a small business that does a few million dollars a year, the business might not feel it. The effect may simply not be felt that much by the owners.

The stakeholders are not looking for it and they don't expect it—plus, you are talking about a trusted employee who has been there a long time. These things do perpetuate and go on and on.

However, what I have also seen is that the perpetrators tend to get greedy. They start employing more and different kinds of schemes and take more and more money. So, the volume of the theft goes up, and typically the number of different types of methods of stealing also increases over time. That is where they often get tripped, because the numbers get so big a stakeholder finally notices or someone stumbles over it by accident.

CCH: You must be familiar with Rita Crundwell story.

Marquet: She is the largest municipal embezzler in American history. She had total control over the finances of the town of Dixon, Illinois. She was there for what, 25 odd years, and she stole for 22 years, supposedly. Looking at the history, as the years went by the amounts being stolen got greater and greater—until the scheme simply collapsed on itself.

Here she was living the high life, breeding her horses. The people sort of assumed she was wealthy because of her horse business, but it was just the opposite: her horse business was a very expensive undertaking that needed support, and she was financing the whole darn thing—not to mention her extravagant lifestyle—by stealing from the town of Dixon to the tune of \$52 million.

CCH: More and more women in America over the past 50 years have been attaining high-level jobs and advancing in careers with more and more responsibilities. In a lot of ways, women are not different from men. Are they just participating more proportionately, both for good and for ill?

Marquet: It is a good point, but why are women so much involved in this type of fraud vs. another, such as investment frauds and Ponzi schemes, where men dominate? I don't think sociologists have an answer to that. However, the data are unequivocal: there is a disproportionately large number of female embezzlers compared with men—almost two-thirds of the cases. That is a significant fact. Having said that, is it simply because more women are in the workforce? That may be part of the answer. Is it also perhaps because more women are in bookkeeping positions? That is definitely also a factor. Or is it simply that women, being equal opportunity fraudsters, have caught up with the men? Probably all of that comes into play. Or is there some phenomenon with middle-aged wom-

en that leads them to decide they want to get what is theirs from their employer? Our research doesn't have an answer to that.

CCH: Can you name some recent examples?

Marquet: I get reports daily from various sources on major embezzlement cases in the United States. For example, as we speak [October 2013], this past week we have had the following cases in the news:

- Cindy Ann Su'a, age 47, of Fullerton, Calif., was sentenced to four years in prison for embezzling more than \$360,000 from the Anaheim Police Association, where she was office manager by a payroll manipulation scheme that spanned six years.
- Shelly Lough, 46, of West Liberty, W.Va., was arrested for her role in an embezzlement conspiracy scheme involving two others that netted more than \$500,000 from Bethany College, where she had managed the cashier's office. Lough's scheme has not yet been disclosed, but is believed to have spanned as long as two years. She had been an employee of the college for seven years before it was discovered and she was terminated.
- April Lynn Neighbors Campbell, 34, of Trinity, N.C., was indicted of one count of felony embezzlement after allegedly stealing more than \$200,000 from the nearby City of Archdale, where she had worked as budget operations manager. Campbell reportedly used a city credit card to pay for personal expenses over a three-year period and had been a city employee for 14 years.
- Kimberly Dawn Brown, 46, of Marlow, Tex., pleaded guilty to felony embezzlement charges in a case in which more than \$280,000 is believed to have been stolen from the Bray-Doyle School District, where she had worked as financial secretary. Brown's scheme involved siphoning funds out of the school employees' Christmas account over a period of more than three years.
- Diane King, 53, of Ocean Pines, Md., was sentenced to 15 years in prison for embezzling some \$376,000 from Addcon General Construction Company, where she had been employed as bookkeeper. King reportedly made unauthorized account transfers and wrote checks to herself and family members over a period of about three years to support a lavish lifestyle.
- Bonny Jean Carter, 61, of Childersburg, Ala., has been charged in federal court with embezzling more than \$950,000 from SouthFirst Bank over

an 11-year period by siphoning funds from operating accounts into savings accounts for herself and her daughter. Carter, who had been employed as an account clerk, was also a Childersburg city councilman.

As you can see, these cases span years and involve long-time employees who stole hundreds of thousands of dollars, usually to support a certain lifestyle.

For comparison, embezzlement is different from other kinds of fraud. There are investment fraud schemes and Ponzi schemes—the Bernie Madoffs of the world—and although he is an extreme example, 90 percent of the perpetrators are men. There is something to that. There is a stark difference. By far, most Ponzi scheme perpetrators are male, whereas in embezzlement, nearly two-thirds are women.

Investigate vendor complaints because if they are not getting paid, sometimes it's a sign that funds are being diverted.

CCH: When people embezzle money, do they pay their taxes on it?

Marquet: No. Oftentimes one of the criminal charges that goes with these cases is tax evasion. As part of the restitution, they may have to pay back taxes on the money they stole.

CCH: How often is it that the IRS gets suspicious before the victim does?

Marquet: Not often from what I have seen. What happens is the perpetrators are basically spending the money and living a lavish lifestyle. They put an addition on their home, buy a vacation home, go on fancy trips, buy fur coats and cars, or support a family business. And sometimes they are compulsive gamblers. It's not like they're depositing the money for long periods of time in accounts that then get queried. Cases typically get found out by the business owners, by accident, and sometimes as a result of an audit.

CCH: Let's say the owners want to maintain confidentiality to preserve their reputation and so on, do they ever just report the perpetrators to the IRS as possible tax evaders?

Marquet: If they report them to the IRS, they may get prosecuted anyway because the IRS may report them to the U.S. Attorney's Office, depending on how much the amount of the theft is.

What an employer might do if they are worried about embarrassment is reach some sort of civil agreement for restitution. In other words, the perpetra-

tor agrees to pay back the money over time and they don't get sued civilly or charged criminally. Sometimes when those agreements fall through, the victim files civil suit or refers the matter to a prosecutor. Other times, they simply fire the person and leave it at that. Sometimes they never get to the bottom of how extensive the fraud was.

CCH: What can an organization do to prevent this?

Marquet: There are a lot of things that can be done to mitigate the risk of embezzlement. Segregation of duties in the finance department, of course.

The people who sign the checks should not be the same people who approve them, for example. One of the most frequent methods of embezzlement is forged

or fraudulent checks, in which the fraudster simply writes them out to themselves or a phony company. Requiring multiple signatures on checks over a certain amount, examining returned canceled checks, making sure that they are not being endorsed through the wrong people are all good policies. In other words, audit your canceled checks periodically. Keep unused checks in a lockbox that only certain people have control of and have to sign in and out. Companies can have random audits of different departments, cash, and credit card charges. Make sure payments are fully backed up with appropriate documentation. The person who performs the bank reconciliation should not be the same person who handles cash receipts and cash disbursements; again, segregation of duties. Know who your vendors are. Investigate vendor complaints because if they are not getting paid, sometimes it's a sign that funds are being diverted. Perform background checks on personnel involved in fiduciary duties.

Finally, I would say prosecute the perpetrators because that creates a permanent record and helps protect future employers. That puts everybody on notice. Hopefully, it stops the person from doing it again. I have seen cases where serial embezzlers go from one employer to the next stealing thousands of dollars and doing terrible harm to companies and their employees.

CCH: Companies want to keep things quiet, otherwise they look bad. So, they absorb the loss. But do companies really suffer a hit to their reputation? Do their reputations really suffer if it comes out that one of their employees embezzled?

Marquet: When you go back to our parents' era, it was much more the conventional wisdom that embezzlement was swept under the rug and victims absorbed the loss. They didn't want the bad press and the negative effect on the reputation on the company. I think that has changed a lot in the last 20 to 30 years—at least that is my experience as an investigator, having looked at thousands of these kinds of cases. Any publicly traded entity has regulatory and statutory requirements to disclose significant financial events; for example, the case of Sujata “Sue” Sachdeva, out in the Midwest, who is alleged to have stolen \$31 million dollars or so from Koss Corp. She was the company's vice president of finance. She is one of the largest embezzlers in history. In some years, the amount she allegedly stole was larger than the company's profit. That was a publicly traded company. It was a significant financial event, so they had no choice but to disclose it.

As for the more common victim, which is a small or midsize business, privately held or family owned, there is more willingness these days to go out and say, you know, we're going to do the right thing here. First of all, we've been betrayed; this is a serious breach and the person ought to pay for their crimes. Referrals to prosecutors are much more frequent these days than they were 10, 20, or 30 years ago. Having said that, if it's not more than \$100,000, the feds are not going to be terribly interested. For a smaller embezzlement, say, at least \$25,000, there will be more interest at the state level. Below those amounts you don't see prosecutions as frequently. There is a good-money-after-bad consideration, where employers have to decide whether it's going to cost more to hire lawyers, investigators, and accountants to document the theft than the amount that got stolen. In those cases, the employer will fire the person and may make them agree to sign a promissory note to pay the company back over time.

The public generally only sees prosecutions of major embezzlement cases. It is true that you see a lot more today—certainly because the change in business culture where there is a greater willingness on the part of companies to refer these kinds of breaches to law enforcement.

CCH: What about technology, data mining, for instance? Is there some technological way to assist smaller entities in catching embezzlers and other kinds of fraudsters?

Marquet: There is software that helps companies look for anomalies in bookkeeping, and I would defer to what the accountants might say and recommend on that. These kinds of software might look at variations

in certain categories of expenses over periods of time and hone in on those anomalies. That could help nip some embezzlement schemes in the bud. However, you can't just look at what's going on internally, but also externally to see that there are anomalies, such as in an employee's lifestyle—which is not something any software can do at this point. Looking at a case such as Rita Crundwell, it was a huge amount of money that she stole and the municipality didn't have sophisticated software tracking its finances. She controlled all aspects of the finances—and she lived a lifestyle that most people can only dream about. That's something that's difficult to rectify. In cases like that, when questions come up, people assume they had an inheritance or her husband works or her husband is wealthy. Or she was independently wealthy to begin with.

CCH: What other kinds of external factors are there?

Marquet: Gambling is a big problem, and it drives a lot of major embezzlement cases, a lot of them involving women. If the company knew which employees were gamblers, I would suggest that would be a big red flag. We have done some analysis on this topic and it is clearly a problem. Gambling can drive otherwise honest individuals to steal from their employer to feed their habit.

CCH: Do you have statistics such as how many embezzlers are gamblers?

Marquet: The *Marquet Report on Embezzlement* tries to look at the apparent motivating factors behind these large embezzlement cases. That is hard to do because it is not often clear. We examined 2,500 cases over the past five years. We assigned a motivating factor to only a small percentage of those, relatively speaking. But of those, about a third involved gambling. So, statistically, we can't say it's significant, but there is no question in my mind that gamblers are more likely to embezzle than nongamblers. How much more, I couldn't say. But I would say, if your bookkeeper is a known gambler and goes on junkets, I'd suggest taking a hard look at the company's finances. That is something a company needs to be aware of internally.

CCH: Speaking of junkets, companies have policies that were require people with financial fiscal responsibilities—access to the money—to take a full two-week vacation at least once a year.

Marquet: Yes. It's recommended that employees in those positions take their required vacations. Typical embezzlers don't want to take vacations because they

want to control all aspects of the finances or their little realm of responsibility in which their scheme exists—payroll, for example.

Many embezzlement schemes have unraveled by accident when the perps were away on vacation and a check came in or went out and a temp bookkeeper looked at it and saw it as odd. That happens a lot. Requiring people to go on vacation is not a foolproof method because some schemes can be done on an *ad-hoc* basis only when the perpetrator is there. The control freak, never-taking-a-vacation embezzler can sometimes be thwarted if a vacation policy is in place.

CCH: Any final words?

Marquet: One of the interesting things we noted was that while women are more frequently the perpetrators of embezzlement, when men do it, on average they steal a lot more than women. Perhaps this is because men are still holding higher finance positions than women at this point—it is hard to say.

About Christopher T. Marquet: He is the founder and CEO of *Marquet International Ltd.* and has more than 30 years of professional experience in the investigative, litigation support, business intelligence, and security consulting industry. His extensive experience includes servicing a broad range of industry sectors and clients, including public and private corporations, financial institutions, law firms, governments, and high profile individuals.

During his lengthy career, he 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 due diligence; gener-

al litigation support; investigations into intellectual property theft, environmental disputes, fraud, workplace violence, and employee misconduct; hostile takeovers and proxy battles; competitive intelligence, corporate security; executive protection; crisis management; and insurance disputes.

Marquet is the author of many professional articles and white papers, including the annual *Marquet Report on Embezzlement; 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; Identity Theft: How Companies and Consumers Can Combat the Nightmare; and Resume Fraud: The Top Ten Lies.* Find these articles on his firm's website at www.marquetinternational.com. He has also lectured extensively and been widely quoted on the subjects relating to due diligence and business intelligence, internal investigations, fraud, employee integrity, workplace violence, kidnapping, terrorism, crisis management, and travel security. He also manages a popular industry blog called *White Collar Fraud Talk* at <http://fraudtalk.blogspot.com>.

He is or has been a member of many professional associations, including the Massachusetts Bar Association (nonlawyer member), the Licensed Private Detective Association of Massachusetts, the American Society for Industrial Security, the Society for Competitive Intelligence Professionals, The Association for Corporate Growth, the Society for Human Resource Management and the Risk & Insurance Management Society. He received an A.B. degree from Dartmouth College in 1983, with a triple major in physics, economics, and philosophy.

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