Non-Profits At Risk For Fraud & Embezzlement

With Some Practical Recommendations To Protect Your Organization

By Christopher T. Marquet
July 11, 2011

All organizations are subject to fraud, waste and abuse. However, non-profits seem to be especially susceptible to internal fraud and theft. In fact, based upon our analysis of more than 1,000 major embezzlement cases in the US in the past three years as outlined in our annual *Marquet Report on Embezzlement*, non-profits, ranging from small charities to large non-profit institutions, together with religious organizations, are the third most frequently victimized industry sector (behind financial institutions and government entities, respectively).

While embezzlement occurs daily at all types of organizations, we have tracked a large number of significant misappropriations at non-profits. This is in spite of the fact that many cases involving non-profits go unreported and unprosecuted – which is part of the problem. The damage, while significant, is not only financial. Institutional reputation, donor relations, future growth and fundraising, can all be negatively affected by a major defalcation.

We believe that this risk facing non-profits is the result of both a weak financial control structure and a general high level trust factor within a given non-profits community. Nevertheless, while that trust is generally well founded, there are still going to be wayward birds in every flock. A colleague once told me that in every organization, at any given time, there is always someone who is up to no good. Unfortunately, I believe that this axiom is true, based upon my experience investigation fraud cases over a span of nearly 30 years.

Conventional wisdom suggests that economic factors, such as economic instability, persistently high rates of unemployment, low consumer confidence and other poor economic indicators, may increase the frequency of many white collar frauds, including employee theft. However, this is certainly not the only factor – as many embezzlers' schemes last for years before they are found out. In fact, they often begin in good economic times, when it is easier to hide their schemes from otherwise more vigilant management.

The good news is that we found the average sized major non-profits embezzlement case to be less than half the overall average for all industries. However, this is no-doubt due in part to the fact that most non-profits are smaller than the typical corporate entity – many small businesses have larger budgets than individual non-profits and parishes.

Consider the following 26 major embezzlement cases around the US in the news over just the past six months involving non-profits, totaling more than $10 million in direct losses:

June 2011 - **Valerie Tebbetts**, 54, formerly of Dorchester, Massachusetts, was indicted on charges alleging she embezzled more than $126,000 from **The Living Center**, a local HIV/AIDS charity group for which she had served as the executive director. According to prosecutors, over a period of more than 2 years, from September 2008 to November 2010, Tebbetts issued numerous checks to pay for personal expenses, including her rent as well as made numerous cash withdrawals from the charity's accounts. Tebbetts was indicted on three counts of larceny by embezzlement over $250 and false entries in corporate books. Her case is pending.

June 2011 - **Ralph R. VanAlstyne Sr**., 62, of Gloversville, New York was pleaded guilty to charges charges he embezzled more than $200,000 from three non-profit veterans organizations: the **American Legion Harold Wilmont Post 137**, the **Veterans of Foreign Wars Bernard W. Kierney Memorial Post #2077** and the **Fulton County Disabled American Veterans Chapter 122**, where he held fiduciary positions. According to prosecutors, VanAlstyne's scheme spanned nearly 4 years from January 2005 until December 2008. The scheme involved the siphoning of funds from the organizations' revenues from gaming operations. Prosecutors alleged that VanAlstyne shifted funds between accounts in an effort to hide his thefts.

June 2011 - **Connie A. Stills**, 56, of Middleton, Idaho, was sentenced to 41 months in prison for embezzling $1.3 million from the **Port of Hope Centers Inc**., a non-profit drug and alcohol treatment concern where she had been employed as a bookkeeper. According to prosecutors, Stills siphoned the funds over a period of four year, from 2004 until 2008, by writing checks from the non-profit's coffers to pay for her credit card bills and other personal expenses. She pleaded guilty in September 2010 to felony counts of filing a false tax return and mail fraud. Stills was also ordered to pay $1.7 million in restitution. Still's daughter, **Bobbie A. George**, 31, also of Middleton, plead guilty for her involvement in the theft of some $177,000 from the agency and was sentenced to five years probation and ordered to pay $233,024 in restitution. Stills had been an employee of the agency for nearly 20 years.

June 2011 - **Diana Hubbard Carr**, 56, of Alexandria, Virginia, pleaded guilty to charges she embezzled as much as $400,000 from the **American Conservative Union** where she had been employed as an administrative director. According to authorities, Carr's scheme spanned at least 3 years from 2006 through 2009 and involved the diversion of funds from the non-profit's coffers into her own accounts. She was also accused of paying her credit cards and making personal purchases with the organization's funds. The ACU hosts the annual Conservative Political Action Committee (CPAC) meeting. Carr faces up to 20 years in prison upon sentencing, scheduled for September 16, 2011.

May 2011 - **John Willis Hurst**, 51, of Charlotte, North Carolina, was sentenced to 12 to 16 months in prison for embezzling more than $300,000 from the **Matthews Playhouse of the Performing Arts** where he had served as treasurer. According to authorities, over a period of 7 years, from 2002 until August 2009, Hurst siphoned funds from the non-profit’s coffers. Hurst was arrested in June 2010 and pleaded guilty earlier in May 2011. However, details are unclear as to how Hurst embezzled the monies. Hurst was also ordered to make restitution to the playhouse and to pay court costs.

May 2011 - **Lynette Rojas**, 37, of La Habra, California, was sentenced to 3 years in prison for embezzling $134,540 from the **La Habra Boys and Girls Club** where she had been employed as an executive assistant with bookkeeping responsibilities. According to authorities, Rojas stole more than $109,000 in cash from the club and wrote more than 2 dozen unauthorized checks to herself totaling nearly $25,000. The thefts spanned more than 2 ½ years, beginning in April 2008 and she reportedly used some of the stolen funds to pay for breast implants. Rojas was arrested and charged in December 2010 with grand theft by embezzlement and 24 felony counts of computer access and fraud and subsequently pleaded guilty in April 2011. As a result of Rojas' alleged thefts, several employees had to be laid off and cut off programs for needy children.

May 2011 - **Vincent Paul Reed Jr.**, 58, of Shapleigh, Maine, was charged with embezzling about $1.25 million from the **Massachusetts Grand Lodge of Masons** where he had served as treasurer. According to authorities, Reed's scheme spanned a period of about 7 years, from 2001 to 2008. He is alleged to have siphoned funds from the non-profit’s investment accounts and transferred the monies to operating accounts he controlled and used a debit card to pay for personal items, expenses and debts. His case is pending.

May 2011 - **Gayle J. Tatman**, 59, of Grove City, Ohio, was sentenced to 2 years in prison for embezzling nearly $213,000 from the **Grove City Food Pantry** for which she had served as treasurer. According to authorities, Tatman siphoned the funds, amounting to half of the non-profit pantry's cash, over a period of 7 years, from May 2002 until April 2009. Tatman's scheme involved forgery of checks and at least four of the organization's bank accounts, including one that was supposed to have been closed out years ago. Tatman pleaded guilty in a plea agreement in January 2011 to one count of bank fraud.

May 2011 - **James T. Wagner,** 69, of South Dartmouth, Massachusetts, was charged with embezzling more than $100,000 from the **Andrews-Dahill Post of the Veterans of Foreign Wars** where he had served as quartermaster for 21 years. Wagner is believed to have written checks out to himself as well as to fictitious businesses and individuals as well as real people, including the infamous **Lorena Bobbitt**. Wagner's case is pending.

May 2011 - **Joyce Bidnick**, 58, of New City, New York was charged with embezzling more than $100,000 from the **New City Little League** for which she had served as volunteer treasurer. Bidnick is accused of writing checks to herself for nearly 8 years, since 2003 and then falsifying the non-profit league's books to hide her thefts. Meanwhile a forensic audit is still in process. Bidnick's case is pending.

April 2011 - **Sheila Elliott**, 62, of Hendersonville, North Carolina, was charged with embezzling $100,515 from **Elks Lodge 1616**, where she had been employed as an office manager "entrusted to receive money". According to authorities, Elliott's scheme spanned a two year period, from July 1, 2008 until July 16, 2010. Her case is pending.

April 2011 - **Eric Wayne Stroschein**, 49, and **Judith Ann Stroschein**, 46, both of Blythe, California, were arrested and charged with embezzling more than $100,000 from the **Blythe Jaycees** where Eric had served as treasurer. According to authorities, Eric Stroschein made withdrawals from the non-profit Jaycees account and deposited the monies into his own and his wife's accounts. The two have been charged with felony embezzlement and conspiracy. Their cases are pending.

April 2011 - **Kathy Dishman White**, 40, of Abingdon, Virginia, was sentenced to 53 months in prison for embezzling $225,079.65 from the **Southwest Virginia Emergency Medical Services Council** where she had been employed as a bookkeeper. Authorities alleged that over a four year period, beginning in 2006, White misappropriated small, but regular amounts of money by utilizing the non-profit's credit cards for personal use. She then attempted to cover-up the thefts by issuing checks from the organization's checking account to pay the credit card bills. She was accused of using the stolen funds to pay for a house and all kinds of personal luxury items. The non-profit operated on a budget of only $500,000. Dishman-White, who pleaded guilty in November 2010, was also ordered to pay restitution.

April 2011 - An unnamed female former bookkeeper for the **Washington State Superior Court Judges' Association** is being investigated for embezzling as much as $400,000 from the non-profit group. According to reports, the bookkeeper was fired in April 2010 after an internal investigation revealed the misappropriation. The thefts allegedly spanned "several years." The matter has been turned over to law enforcement officials for investigation and possible prosecution. Specific details about the case have yet to be released.

March 2011 - **Patricia M. "Trish" Dano**, 43, of Naples, Maine, was accused in a civil lawsuit of embezzling about $117,000 from the **Maine Island Trail Association**, a non-profit environmental association where she had served as business manager. According to the lawsuit, Dano used the organization's credit card for personal expenses and forged checks for her own benefit and then created “parallel and inaccurate banking records” to hide the misappropriations. She is also alleged to have caused unauthorized electronic funds transfers to pay her personal credit card bills. The thefts allegedly spanned a 4 1/2 year period, from August 2006 until early February 2011, when her position was eliminated and suspicious transactions were discovered. Dano has reached a civil restitution agreement with the association to pay back the funds. It is not known whether law enforcement authorities are investigating.

March 2011 - **Thomas Ray Martin**, 47, of Concord, California, was charged with embezzling about $162,000 from the **Discovery Counseling Center of the San Ramon Valley**, a Bay Area non-profit mental health organization where he had served as director. According to authorities, Martin used a debit card linked to the checking account of the organization to pay for personal expenses and luxury items. His misappropriations allegedly spanned more than three years, from July 2007 until September 2010. The thefts were quantified after an audit was conducted following allegations of Martin's misconduct and he was terminated last October. Martin has been charged with 4 felony counts of grand theft by embezzlement and has pleaded not guilty. His case is pending.

March 2011 **- Carolyn Mitchell**, 47, of Washington, DC, pleaded guilty to charges she embezzled $210,800.42 from the **National Consumers League** where she had been employed as an accountant and an administrative assistant. According to authorities, over a period of more than 5 years, from March 2005 to May 2010, Mitchell misappropriated funds from the private non-profit by depositing checks meant for vendors into her own accounts. She also deposited donor checks into her own accounts. Mitchell, who pleaded guilty to forging securities, was sentenced to 27 months in prison on June 24, 2011 and ordered to pay restitution.

March 2011 - **Kirk McDaniel Jr**., 74, of Prairie Village, Kansas, was indicted on charges he embezzled nearly $285,000 from the **York Rite Masonic Bodies** in Kansas City, Missouri, where he had served as Secretary and Treasurer. According to prosecutors, McDaniel made electronic funds transfers from the non-profit Masonic accounts to several accounts he controlled over a period of as long as five years from June 2000 and September 2005. McDaniel was indicted on 18 felony counts, including 16 counts of bank fraud and 2 counts of money laundering. McDaniel has reportedly paid back $105,012 of the $284,675 he allegedly stole, according to authorities. His case is pending.

March 2011 - **Cheri A. Logue**, 42, of Claysville, Pennsylvania, was sentenced to 22 months in prison for embezzling about $195,000 from the **Southwestern Pennsylvania Legal Services Corporation** where she had served as legal aid. According to authorities, Logue misappropriated the funds from the non-profit agency that provides legal services to low-income people, over a period of at least 7 years, from 2001 until June 2008. According to prosecutors, Logue misappropriated the funds by writing at least 86 checks to herself or for her own benefit; made at least 56 unauthorized cash withdrawals using an agency ATM card; made at least 25 unauthorized electronic transfers to herself or to pay for personal expenses; and made more than 300 unauthorized and improper charges to an agency credit card for her own benefit. Logue, who was fired in June 2008 after suspicions were raised about missing funds, pleaded guilty to the charge of theft from a program receiving federal funds on April 27, 2010.

February 2011 - **Deborah A. Leggio**, 47, currently of Tracy, California and formerly of Long Island, New York, was arrested and charged with grand larceny in connection with her alleged embezzlement of $274,301 from the Suffolk County chapter of the **American Red Cross** in Long Island, New York where she had served as finance director. According to prosecutors, Leggio used a Red Cross debit card, issued in her name, to make numerous unauthorized cash withdrawals over a period of more than four years between August 2005 and November 2009. Her case is pending.

February 2011 - **Bettysue Higgins**, 53, of Gardiner, Maine, was arrested and charged with embezzling about $166,000 from the **Maine Trial Lawyers Association** where she had served as an administrative assistant. According to authorities, Higgins issued at least 220 forged checks from the non-profit to herself over a period of about 4 years, from 2006 until October

2010. She has been charged with one count of theft by unauthorized taking or transfer and one count of forgery. Higgins is also a defendant in a civil lawsuit filed by the association seeking recovery of the misappropriated funds. Her case is pending.

January 2011 - **Hugh Michael Robey**, 48, of Bowie, Maryland, was sentenced to one year in prison for his role in an embezzlement scheme that bilked some $1.7 million out of the **American Board of Opticianry** and the **National Contact Lens Examiners**, where he had served as Executive Director. According to prosecutors, Robey used the non-profits funds to take trips and buy expensive items for his family and friends. He reportedly conspired with **Carletta Carter Stewart**, 45, of Fredericksburg, Maryland, the group's Chief Financial Officer and Legal Officer. Stewart is believed to have written about $1.1 million worth of checks and other association credits to herself. The schemes spanned a six year period from January 2004 to July 2010, in which they allegedly covered for each other. Robey pleaded guilty to four counts of embezzlement. He was actually sentenced to four 10 year sentences with 9 years suspended on each count, to be served concurrently.

January 2011 - **Christina Madej**, 58, of Chicago, Illinois, was charged with embezzling nearly $290,000 from the **Chicago Engineers' Foundation**, a non-profit that provides scholarships to area students, for which she had served as its director. According to authorities, Madej wrote checks to herself from foundation accounts. The foundation is affiliated with the **Union League Club of Chicago**. Her case is pending.

January 2011 - **Diana Lynn Lewis**, 44, of Boulder, Colorado was arrested on charges she embezzled $178,000 from the non-profit **Impact on Education**, where she had been employed as a bookkeeper. According to authorities, Lewis forged numerous checks from the charity that supports the **Boulder Valley School District** over a period of six years, between 2004 and 2010. According to reports, Lewis has a prior conviction for fraud, although details are not available. In June 2011, Lewis was sentenced to 6 years in jail.

January 2011 - **Ronald E. Partee**, 45, of St. Louis, Missouri, pleaded guilty to charges he embezzled more than $1 million from **MERS/Goodwill Industries**, where he had served as an assistant vice president in the human resources department and had specific fiduciary duties. According to authorities, Partee wrote checks to several bogus businesses and accounts to which he was the sole beneficiary. The scheme reportedly began in January 2007 and spanned 3 1/2 years until July 2010 when it was uncovered and he was fired. Partee purchased a Porsche automobile and other luxury items with the stolen money. He also accepted tuition reimbursements for law school which he never attended. Partee pleaded guilty to one felony count of embezzlement and one felony count of money laundering. In May 2011, Partee was sentenced to 70 months in prison.

January 2011 - **Marcia Jackson**, 51, of Florissant, Missouri, was sentenced to 7 years in prison for embezzling more than $650,000 from the **Show-Me Institute**, a local non-profit think-tank, where she had been employed as an office manager. Jackson, who was originally charged in July 2010, pleaded guilty in November 2010 to one count of theft greater than $25,000 and 24 counts of fraudulently using a credit device. Authorities alleged that over a period of three years, from November 2006 to December 2009, Jackson misappropriated the funds from the institute and used the monies to pay for home repairs, spa treatments, hair replacement treatments, jewelry and numerous vacations. According to reports, Jackson was fired for unprofessional conduct and insubordination and an audit ensued, which revealed the thefts.

It is noteworthy that in 19 out of the 26 cases outlined above (73%), the alleged principal perpetrator held bookkeeping, financial or management positions with fiduciary duties within the victim organization. While this is consistent with our overall findings across all industries, it is also indicative of where the problem generally lies. Four (4) of the alleged perpetrators – or more than 15%, were the actual senior operating officers of their respective victimized non-profit. This is a little higher than the overall average (13%). In 17 of the cases, or nearly 2/3^{rds} of the cases, the alleged perpetrator is female – also consistent with our overall findings.

Our research into this topic reveals that the most common types of embezzlement involve the following types of schemes, in order of frequency:

- Forging checks payable to cash, oneself and/or to personal vendors
- Pocketing cash receipts meant for deposit into institutional accounts
- Issuing extra paychecks and/or bonus checks through payroll to oneself
- Submitting fraudulent expense reports for reimbursement
- Submitting fraudulent invoices from phony or legitimate vendors
- Abusing institutional credit card accounts for personal use
- Electronic transfers of institutional funds to personal accounts and/or vendors
- Pilfering institutional equipment and/or inventory

Clearly the most common risk to non-profits primarily involve fraudulent or forged check writing schemes as the cases above demonstrate. So how can non-profits prevent, detect and respond to this kind of fraud? Preventing embezzlement involves active policies that discourage employee theft, backed up by proactive auditing procedures to reinforce the policies and to detect irregularities. Many non-profits are small and therefore have limited resources and controls in place or rely on a single bookkeeper. Nevertheless, there are some proactive steps we recommend to mitigate the risk of embezzlement, including, but not limited to:

- Do not allow a single individual access to all aspects of institutional finances in any given department. Make sure there are divisions of duties in the finance department in particular.
- Regularly rotate responsibilities for bookkeeping personnel.
- Require bookkeeping personnel to take vacation time off. Embezzlers often take little or no vacations to safely perpetrate their schemes.
- Do not allow bookkeepers to take work home.
- Require two signatories on outgoing checks above a certain nominal amount. The signatories should be different individuals from the check preparer.
- Examine cancelled checks regularly. The most common method of embezzlement involves the forgery of checks. Another is to have them payable to the embezzler or to 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. Non-profit trustees/management should take a hands-on approach by physically spending time with the bookkeeping department periodically.
- Audit petty cash regularly.
- Audit 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 institution's vendors are. As we can see from the above examples, 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, as we have also seen.
- Investigate 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 any fiduciary duties.
- Prosecute perpetrators, creating a permanent record future employers can find.

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 investigation, overseen by internal and/or external legal counsel or audit function must ensue, beginning with a small circle of those who need to know and expanding from there. 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. As such, an independent forensic 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 individuals may also be part of the process. Again, use the reverse onion peel strategy, working from the innermost circle outward as needed which helps contain and control the investigation. This process might even include an interview of the suspected perpetrator at the appropriate time. 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.

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.

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 – sometimes several – to steal from their employer. Further, their thefts will have invariably spanned a duration longer 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.

Any chance at recovery or restitution may also depend upon your "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, 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 suggested above, I strongly recommend that 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 institutional morale and goodwill; 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 evidence, the swifter the prosecutorial response. If federal or state prosecutors are uninterested 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 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.

While employee theft at America's non-profits is all too common these days, prudent steps, such as those outlined above, can help minimize and mitigate the risk.

* * * * *

Christopher T. Marquet is Chief Executive Officer of Marquet International, Ltd., an investigative and security consulting firm based in Boston, Massachusetts. He can be reached at (617) 733-3304 or chris@marquetinternational.com. Marquet International publishes its annual Marquet Report on Embezzlement which can be found on our website at www.marquetinternational.com.