

A Month of Embezzlement Stories

Database searches turned up a large number of newspaper stories reporting on cases of embezzlement and corruption in a 30-day span. These stories are a reminder that companies need to do more to protect against loss.

August is generally considered a slow news month with both newsmakers and news reporters often on vacation. Yet an unscientific search of various newspaper databases found more than 200 stories reported in 30 days covering legal cases involving embezzlement in the United States. And that doesn't include any stories about embezzlement and corruption in other countries!

The stories reported on separate, individual cases. They aren't merely compilation lists from police blotters or court calendars. Not unexpectedly, few cases involved giant companies. Aside from the fact that larger companies are more likely to have policies that discourage publicity, it's also been shown that smaller and mid-sized companies face greater embezzlement risks. These smaller companies are also more likely to have their activities covered in local and regional newspapers. The losses in these cases involved as little as a few thousand dollars to as much as several million, encompassing events in many

states. And the legal status of the cases ranged from pre-arraignment allegations to reports on developments after sentencing.

Some common themes appear when looking at the stories, including poor internal controls, trusting one individual without providing adequate oversight, and lack of due diligence. An August 28 story in *Computer Weekly News* highlights the need for small and mid-sized organizations to increase their attention to the risk of embezzlement. It states: "Because the average size company in the U.S. has approximately 10 employees, and because a significant percentage of U.S. firms of that size use Quickbooks, the current digital accounting environment in the U.S. has become effectively an embezzler's dream come true." The article continues: "In a striking reversal of historical precedent, it seems to be more valuable today to have an accounting system that is easy to use and inexpensive than one that is secure against tampering and fraud."

An August 19 story in the Lodi, Calif., *News Sentinel* provides an overview of embezzlement and relates the experiences and thinking of San Joaquin County Deputy District Attorney Stephen Taylor, whose observations are likely rele-

vant throughout the U.S. Taylor believes there has been a sharp increase in embezzlement after the Great Recession, much like the fraud that occurred at the end of the 1920s. He attributes this to a lack of internal accounting controls that provide checks and balances over cash transactions. Instead, some companies turn all financial dealings over to one person they seem to trust like family. "Well," Taylor says, "they're not your children."

A lack of background checks may result in hiring employees who are addicted to drugs or have criminal histories. Taylor explains, "When you see the probation reports that come back on these people, you'll go, 'My God, you let \$1 million a year run through that whack-job's hands?'" The story also mentions local cases of embezzlement, including the accusations that the previous chief of staff at Lodi Memorial Hospital embezzled \$500,000 and the sentencing of a woman to two and a half years in prison for embezzling \$1.3 million from local healthcare organizations.

Unquestionable Trust

The stories that turned up in the database searches disclosed a



number of embezzlement cases involving persons of outwardly high stature and presumed unquestionable trust, including clergy, attorneys, others holding escrow funds, and those employed by religious organizations. An article in the July 2014 issue of *Journal of Academic and Business Ethics*, “Exploring Employee Misconduct in the Workplace,” contains an extensive analysis of the conviction and sentencing of the former national treasurer of the U.S. Episcopal Church. This trusted individual diverted \$2.2 million of church funds to her own personal use, including paying private school tuition and purchasing a 23-acre vacation horse farm in Virginia for \$500,000. She also purchased a Tiffany ring for \$16,000 and commuted to work from her expensive New Jersey historic home in a chauffeured luxury car. In contrast, her predecessor took public transportation. Her higher education claims were totally false, yet she was both the senior executive officer for administration and finance as well as treasurer.

A number of other embezzlement stories involved individuals in positions of trust. An article posted on August 13, 2014, on *The Journal Record's* website reports that federal authorities charged the senior pastor of a Tulsa, Okla., Greater Cornerstone Church with embezzling more than \$900,000 from two nonprofit organizations. And an article posted on August 25 on the *Worcester Telegram & Gazette's* website reported on a former pastor in Northboro, Mass., who was charged with embezzling “more than \$230,000 from a parish and school to fuel a gambling habit.”

On August 25, the *Herald News* in Joliet, Ill., reported the sentencing of a volunteer church treasurer who stole more than \$100,000—four years of probation and 480 hours of community service. The pastor at the church was satisfied with the sentencing, but the church isn't expected to survive. Dealing with the investigation, financial problems, and betrayal caused the pastor to neglect other areas of her ministry.

A story in the *Linn County Leader* on August 18 related that a church treasurer in Brookfield, Mo., pleaded guilty to embezzling \$192,000. She used church checks to buy computers, cameras, and vacuum cleaners at the local Wal-Mart store, only to return the merchandise for cash. She faces up to 20 years in prison and/or a fine of up to \$250,000.

The August 21 issue of the *Greensburg Daily News* in Indiana reports “the former coowner of a local title company has been indicted on charges he embezzled nearly half a million dollars from his clients.” And the *Associated Press* reported on August 4 that “a bond claim attorney [in Towson, Md.] has pleaded guilty to embezzling more than \$3 million from his employer's surety accounts.”

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He is alleged to have used the money to fund a racing team, buy luxury automobiles, and pay college tuition.

Large Losses

The database searches found 23 stories where each embezzlement loss was more than \$1 million. The story involving the largest amount—\$22 million—appeared in the August 2 issue of the *Tribune* of San Luis Obispo, Calif. The 81-year-old defendant pleaded no contest to seven felonies for what prosecutors say was a \$22 million Ponzi scheme. The plea agreement allows for five years in the county jail rather than state prison. It also gives the defendant “the prospect of the ability to spend a portion of the remainder of his life out of custody with the opportunity to make restitution to the folks that lost money with him, which has always been his intent and desire,” according to his attorney.

Another large embezzlement case, this time involving investments with a loss of \$4.7 million, was published on August 13 in the *Bartlesville Examiner-Enterprise* in Oklahoma. An investment counselor pleaded guilty to three counts of embezzlement, two counts of obtaining money by false pretense, and four counts of conspiracy. Two weeks later, the August 26 issue of the *Florida Times-Union* in Jacksonville, Fla., described a case amounting to a loss of \$10.5 million. In that case, a bank executive used some of the embezzlement proceeds to help customers pay off delinquent loans and make secret loans to those applications who were denied. He was sentenced to

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spend five years in prison and pay a \$4 million fine.

A former bank manager in Franklinville, N.J., pleaded guilty to embezzling \$264,000, according to the *Associated Press* on August 6. Her maximum sentence could be 30 years in prison. The former bookkeeper of a long-standing Pescadero, Calif., farm was accused of embezzling more than \$3 million in an August 7 story in the *Half Moon Bay Review*. An elderly family farm owner “reportedly left management of the farm’s finances entirely to [the bookkeeper], putting her in charge of collecting money, paying vendors, and doing all the business accounting.”

Public Officials

There also were cases that involved public officials. An Oklahoma tribal chief was indicted in federal court for allegedly embezzling \$150,000 from the tribe, according to the August 8 *Southwest Times Record* of Fort Smith, Ark. And a story in the *Express-Times* of Easton, Pa., on August 5 reports that a trial date has been set for an ex-cop and his wife, a former utility supervisor, who allegedly stole \$855,000 from the town of South Whitehall.

On August 29, *Citizens’ Voice* reported that the Pennsylvania-based Wilkes-Barre Township Fire Chief agreed to plead guilty to stealing about \$45,000 from his volunteer fire department. He faces up to 10 years in prison and must soon resign his post and will be banned from serving public office for five years or the length of

his probation, whichever is longer. And a former homeowner’s association president is accused of embezzling more than \$180,000 from her community, according to a Fort Lauderdale, Fla., *Sun Sentinel* story on August 14.

The List Goes On

There isn’t enough space in this column to detail more than a handful of the many embezzlement cases I’ve found. There was a group of cases involving improper use of company credit cards, and another group involved embezzlement crimes against the elderly and other vulnerable people. The major lessons to be learned are that all organizations, especially small and mid-sized businesses, need to increase their managerial oversight of cash-handling activities, utilize background checks before hiring new employees, and purchase fidelity bond coverage for all persons in positions of trust. As former U.S. President Ronald Reagan said many times: “Trust but verify!” **SF**

Curtis C. Verschoor, CMA, CPA, is the Emeritus Ledger & Quill Research Professor, School of Accountancy and MIS, and an honorary Senior Wicklander Research Fellow in the Institute for Business and Professional Ethics, both at DePaul University, Chicago. He also is a Research Scholar in the Center for Business Ethics at Bentley University, Waltham, Mass., and Chair of IMA’s Ethics Committee. He was selected by Trust Across America—Trust Around the World as one of the Top Thought Leaders in Trustworthy Business—2014. His e-mail address is curtisverschoor@sbcglobal.net.