



# THE MARQUET REPORT ON EMBEZZLEMENT

A STUDY OF MAJOR EMBEZZLEMENT CASES ACTIVE IN THE U.S. IN 2008

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## **Introduction & Overview**

This white collar crime study on embezzlement was conducted by Marquet International, Ltd., a boutique investigative, litigation support and due diligence firm based in the Northeast U.S. The firm, led by longtime industry expert Christopher T. Marquet, is routinely engaged by corporations and their counsel to assist with internal investigations and allegations of employee misconduct. As such, we have seen our share of embezzlement cases over the years and felt it might be insightful to conduct some research into the specific area of embezzlement to see what trends, if any, might exist.

Our interest was further spurred on by the 2008 launch of our White Collar Fraud Blog called *FraudTalk*, wherein we document active cases of employee misconduct and white collar fraud cases, including major embezzlements of more than \$100,000. In our daily updating of the stories to the blog, we were surprised to see how many women were the alleged perpetrators of embezzlements. This led us to ask questions about the characteristics and circumstances of major embezzlement cases and whether any conclusions can be made in doing such an analysis..

This report, which we plan on doing annually, analyzes a variety of factors, such as age, sex, position, duration, geography and industry, to attempt to identify and determine trends for major embezzlement cases active in 2008. To do so we looked at 174 specific “major” cases of embezzlement – that is, cases in which more than \$100,000 was stolen from an employer. There were three cases which fell just below the \$100,000 threshold that we included. We gathered available data from public sources on “active” cases from 2008 – that is, if there was an arrest, indictment, plea, sentencing or other significant event in a particular case during the calendar year 2008. Public sources included court records, prosecutorial press releases, the media, vital statistics records, government records, regulatory records and other public information.

Many of the cases are currently active and some of the accused perpetrators have not yet been convicted or plead out. We have included those cases with a high degree of confidence in the accuracy of the information.

## **Highlights of the Study**

The following facts are some of the highlights that came out of this study on major embezzlement cases active in 2008:

- The average loss was more than \$2.2 million; the median loss was \$500,000.
- Nearly 60 percent of the incidents involved female perpetrators
- However, male perpetrators accounted for more than 75 percent of all the losses
- The average adjusted age of perpetrators at the commencement of their embezzlement was 43.5 years old\*
- 40 – 49 year olds caused nearly 50 percent of all the losses
- Nearly ¼ of all losses were inflicted upon financial institutions
- Non-profit and religious organizations accounted for 10 percent of all the incidents
- Nearly half of the incidents were committed by employees who held finance & accounting positions
- The average scheme lasts nearly 4 ½ years
- The District of Columbia had the highest loss ratio followed by Nebraska, Louisiana, California and Oklahoma\*\*
- 20 percent of the cases involved conspiracies which accounted for 42 percent of the overall losses
- Nearly 6 percent of the cases involve perpetrators who had gambling problems
- Only 3 percent of the cases involved perpetrators who had a prior criminal history

\* The “average adjusted age” is the average age minus the average duration of the schemes in the study to represent the approximate age at which the alleged perpetrator commenced their illicit activities

\*\* The “loss ratio” is defined as the ratio of the percent of total losses for a given state to the percent of Gross Domestic Product that state contributes to overall GDP.

## Details of Analysis

Marquet International identified 174 cases of major embezzlement that were active in 2008. These cases by definition involved more than \$100,000 in loss and had some legal action reported in 2008. Three cases were included in the study which had losses of just under \$100,000. To the extent available, we gathered data from the public domain on each case, for the following categories:

- Amount of the loss
- Age of alleged perpetrator
- Sex of alleged perpetrator
- Industry of victim organization
- Category of job held by alleged perpetrator
- Duration of the scheme
- Geographic location of embezzlement (state)
- Was the scheme a solo action or a conspiracy?
- Was gambling a factor?
- Did the alleged perpetrator have a prior history of criminal activity?

## Amount of Loss

In this study of 174 major cases of embezzlement, the total reported loss was \$385,572,000. We rounded the losses to the nearest \$1,000. The average loss per case was an astonishing \$2,215,931. However, the median loss was \$500,000. The highest was \$65 million and the lowest \$82,000. The \$65 million loss, reported in the recent case of Fry's Electronics in California, involved Ausaf Umar Siddiqui, who reportedly cut side deals with vendors and had a major gambling problem. This obviously skewed the average loss upward, which accounts for the discrepancy between the average and median loss numbers.

The top 10 losses involved the following cases:

| <u>Alleged Perpetrator</u> | <u>Victim Organization</u>           | <u>Amount</u> |
|----------------------------|--------------------------------------|---------------|
| Ausaf Umar Siddiqui        | Fry's Electronics, Inc.              | \$65,600,000  |
| Michael Schneider          | California Plan/Individual Investors | \$43,000,000  |
| William Scott Deloach      | PBSJ Corp.                           | \$36,600,000  |
| James G. Perdigao          | Adams and Reese                      | \$30,000,000  |
| Martin S. Bodner           | Tommy Hilfiger Handbags              | \$19,000,000  |
| Harriette M. Walters       | DC Office of Tax and Revenue         | \$16,000,000  |
| James Phillip Lucero       | Waste Management, Inc.               | \$13,000,000  |
| Jeffrey Windle             | Cambium Learning, Inc.               | \$12,500,000  |
| Ray Van Norman             | Minden Exchange Bank                 | \$11,400,000  |
| Dennis Dowd                | Hitachi America                      | \$8,000,000   |

### Sex of Alleged Perpetrator

The sex of 172 alleged perpetrators is known in the 174 cases. Of those, 71 were male and 101 were female. That is, 41.3 percent were male and 58.7 percent were female. Nevertheless, the males accounted for \$291,365,000 of the total \$385,572,000 in losses, or 75.6 percent. The females accounted for the remaining 24.4 percent. As noted in the chart above, 9 of the top 10 defalcations involved male perpetrators.

### Age of the Alleged Perpetrator

The age is known for 170 of the 174 cases in the survey. It should be noted that the age was given at the time of the arrest or sentencing or other court action in 2008. Therefore the age at which the alleged perpetrator commenced his or her embezzlement would be several years younger, in some cases, many years. In the analysis below we take the age of the alleged perpetrator in 2008. We also develop an adjusted age based upon the average duration of the scheme.

Based on the available data, the average age of the alleged perpetrator in 2008 was 48.2 years. The median age was 49. The age groups breakdown as follows:

| <u>Age (170 in sample):</u> | <u>20-29</u> | <u>30-39</u> | <u>40-49</u> | <u>50-59</u> | <u>60-69</u> | <u>70+</u> |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|------------|
| Raw number                  | 3            | 34           | 53           | 53           | 25           | 2          |
| Percentage of sample        | 1.8%         | 20.0%        | 31.2%        | 31.2%        | 14.7%        | 1.2%       |

The losses caused by each age group breaks down as follows:

| <u>Age range</u> | <u>20-29</u> | <u>30-39</u> | <u>40-49</u>  | <u>50-59</u>  | <u>60-69</u> | <u>70+</u>   |
|------------------|--------------|--------------|---------------|---------------|--------------|--------------|
| Gross loss       | \$1,983,000  | \$28,950,000 | \$184,072,000 | \$113,346,000 | \$41,903,000 | \$12,145,000 |
| Percentage       | 0.5%         | 7.6%         | 48.1%         | 29.6%         | 11.0%        | 3.2%         |

As such, in raw numbers the 40-49 and 50-59 age groups had equal shares nearing 1/3 of the total each. However, the 40-49 age category accounted for nearly half of the losses.

### Industry Category of Victim Organization

We created simple industry classifications for the victim organizations in the survey. These categories included the following: advertising; apparel; art & collectibles; automotive; construction; education; elderly care; energy; entertainment; financial services; food & agriculture; gaming; government agencies; healthcare; individuals; insurance; labor unions; legal services; manufacturing; media; medical; non-profit; personnel & recruiting; pharmaceutical; real estate & development; religious

organizations; restaurant; retail; software; sports & leisure; travel; utility; waste management; warehousing & fulfillment.

An analysis of losses incurred by industry reveals the following 12 industries which experienced the greatest losses:

| <u>Industry (top 12)</u> | <u>#</u> | <u>%</u> | <u>Losses</u> | <u>%</u> |
|--------------------------|----------|----------|---------------|----------|
| Financial Services       | 30       | 17.2%    | \$93,596,000  | 24.3%    |
| Retail                   | 5        | 2.9%     | \$69,650,000  | 18.1%    |
| Construction             | 10       | 5.7%     | \$42,059,000  | 10.9%    |
| Legal Services           | 8        | 4.6%     | \$37,149,000  | 9.6%     |
| Government Agencies      | 25       | 14.4%    | \$27,845,000  | 7.2%     |
| Education                | 16       | 9.2%     | \$22,013,000  | 5.7%     |
| Manufacturing            | 11       | 6.3%     | \$12,438,000  | 3.2%     |
| Real estate              | 6        | 3.4%     | \$6,315,000   | 1.6%     |
| Non-profit (secular)     | 11       | 6.3%     | \$4,440,000   | 1.2%     |
| Healthcare               | 5        | 2.9%     | \$3,731,000   | 1.0%     |
| Religious organizations  | 7        | 4.0%     | \$3,713,000   | 1.0%     |
| Food & Agriculture       | 5        | 2.9%     | \$2,504,000   | 0.6%     |
| All others               | 35       | 20.1%    | \$60,119,000  | 15.6%    |
| Totals                   | 174      | 100%     | \$385,572,000 | 100%     |

As we can see, the Financial Services industry accounted for nearly ¼ of all the losses, followed by the retail and construction industries. Retail was dramatically skewed upward by the single \$65 million defalcation at Fry’s Electronics. Whereas Government Agencies accounted for the second most frequent number of incidents, losses ranked fifth. Non profits and Religious organizations combined account for more than 10 percent of all incidents, yet only just more than 2 percent of the total losses. We would argue that the control environment is loose in non-profit organizations, making it easier to embezzle – but the amounts tend to be small due to the relative size of the such organizations.

Category of job held by alleged perpetrator

For the purposes of this study, we created seven job categories held by the alleged perpetrators. These positions include: Administrator; Attorney; Consultant; Executive; Finance & Accounting; Manager; and Sales. All 173 alleged perpetrators’ positions known in the survey are covered by these seven categories. Finance & Accounting position includes “bookkeepers” or similar positions. The Executive category includes very senior level executives, including owners, CEOs and Presidents. Managers are mid level personnel, not 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 percentages is set forth below:

| <u>Position:</u> | <u>Administrator</u> | <u>Attorney</u> | <u>Consultant</u> | <u>Executive</u> | <u>Finance</u> | <u>Manager</u> | <u>Sales</u> |
|------------------|----------------------|-----------------|-------------------|------------------|----------------|----------------|--------------|
| Number           | 10                   | 9               | 1                 | 25               | 83             | 38             | 7            |
| % of sample      | 5.8%                 | 5.2%            | 0.6%              | 14.5%            | 48.0%          | 22.0%          | 4.0%         |
| Loss             | 4,407,000            | 39,829,000      | 237,000           | 70,511,000       | 151,787,000    | 33,764,000     | 84,857,000   |
| % Loss           | 1.1%                 | 10.3%           | 0.1%              | 18.3%            | 39.4%          | 8.8%           | 22.0%        |

This chart illustrates that Finance & Accounting positions accounted for nearly half of all the embezzlement incidents and 40 percent of the total losses in the study. We note that the percent loss contributed by the Sales category was very much skewed due to the single Fry's Electronics case in California. The Executives category accounted for a disproportionate greater loss than any other category, save Sales (for the above stated reason). Certainly the greater trust and control placed in the Executive allows them to circumvent the usual controls and take greater amounts from their companies on balance. Aside from the Sales anomaly, these are results we would have expected.

#### Duration of the Scheme

The approximate duration of the scheme was determined in 119 of the 174 cases in the study. It should be noted that in a number of instances, prosecutors only prosecuted perpetrators going back in time to the statute of limitations, thereby omitting some of the thefts from the case. Nevertheless, we tabulated the known durations, rounded to the nearest quarter year and determined the following:

|                   |                            |
|-------------------|----------------------------|
| Average duration: | 53.5 months (or 4.5 years) |
| Median duration:  | 4 years                    |
| Longest duration: | 22 years                   |

If we take the average duration and subtract it from the average age (48.2 years), we get an "average adjusted age" of 43.7. This would represent the approximate age at which the average scheme was commenced in this survey.

#### Geographic Location of the Embezzlement

We identified the states with the largest gross losses and determined the percentage of overall losses for these states (see chart below). We also include in this chart the number of incidents for each of these states and the respective percentage of incidents to the total 174 incidents in the study. We then determined the percent Gross Domestic Product that each state contributes to the overall US GDP in 2007. This data was obtained from the

Bureau of Economic Analysis, US Dept. of Commerce. We can assume that those percentages accurately represent the relative economic activity for each state. As such we would expect both the percent of incidents as well as the percent of overall losses to be close to the percent GDP for each state.

In the table below, we compare the top ten states with the greatest overall losses as described above, as well as included a ratio of the percent of total Losses to the percent GDP for each of these states. This ratio, which we call the “loss ratio,” provides us with a variance factor for each state. As such, those states with loss ratios greater than one (1) are states that have a greater loss propensity for embezzlement cases than expected.

| <u>State</u> | <u>Cases</u> | <u>% Cases</u> | <u>Losses</u> | <u>% Losses</u> | <u>% GDP</u> | <u>Loss Ratio</u> |
|--------------|--------------|----------------|---------------|-----------------|--------------|-------------------|
| CA           | 23           | 9.1%           | \$140,585,000 | 36.5%           | 13.2%        | 2.76              |
| FL           | 8            | 3.2%           | \$41,226,000  | 10.7%           | 5.4%         | 1.98              |
| NY           | 9            | 3.6%           | \$37,924,000  | 9.8%            | 8.0%         | 1.23              |
| LA           | 1            | 0.4%           | \$30,000,000  | 7.8%            | 1.6%         | 4.86              |
| MA           | 9            | 3.6%           | \$21,319,000  | 5.5%            | 2.6%         | 2.13              |
| DC           | 4            | 1.6%           | \$16,473,000  | 4.3%            | 0.7%         | 6.10              |
| NE           | 3            | 1.2%           | \$12,177,000  | 3.2%            | 0.6%         | 5.26              |
| VA           | 7            | 2.8%           | \$10,371,000  | 2.7%            | 2.8%         | 0.96              |
| OK           | 8            | 3.2%           | \$9,343,000   | 2.4%            | 1.0%         | 2.42              |
| PA           | 7            | 2.8%           | \$8,902,000   | 2.3%            | 3.9%         | 0.59              |

Based upon that hypothesis, we see that the District of Columbia, Nebraska, Louisiana, California, Oklahoma, Massachusetts and Florida, which all have loss ratios greater than 2, are the states with the greatest propensity for embezzlement loss. Once again, we see that California has been skewed upwards as a result of the Fry’s Electronics case. Louisiana only had one incident, but it too was significant – the case of James G. "Jamie" Perdigao bilking the law firm of Adams & Reese and its clients for \$30 million. Interestingly, Oklahoma and Nebraska had relatively high losses as a percent of total losses as well as high loss ratios. Whereas New York, Pennsylvania and Virginia were roughly in line with what we would expect. Massachusetts had twice the loss rate than we would expect, based upon its percent GDP.

Was the scheme a solo action or a conspiracy?

We were able to determine with relative confidence whether each embezzlement case in the study 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:

| <u>Solo vs. Conspiracy</u> | <u>Conspiracy</u> | <u>Solo</u>   | <u>Totals</u> |
|----------------------------|-------------------|---------------|---------------|
| Number of incidents        | 35                | 139           | 174           |
| Percentage of sample       | 20.1%             | 79.9%         | 100.0%        |
| Gross loss per category    | \$161,959,000     | \$223,613,000 | \$385,572,000 |
| Percentage of sample       | 42.0%             | 58.0%         | 100.0%        |

According to this analysis, conspiracy cases accounted for twice the rate of loss as solo embezzlement cases.

### Was Gambling a Factor?

In a number of cases, it was disclosed that the alleged perpetrator had a gambling problem which may have contributed to the motivation to embezzle. Other motivating factors were identified as well, such as financial woes and divorce. Perhaps the most interesting alleged motivation involves Cassandra Mull Ryder, who allegedly embezzled \$134,000 from the Tennessee bank she worked for and blamed her activities on an addiction to the QVC shopping TV network. Nevertheless, the motivation in the vast majority of cases appears to be simply to support a lavish lifestyle. Based upon the paucity of motivational detail we believe that the number of cases where gambling or other personal problems was a key factor, are undercounted. Of the 174 cases in the study, 10 definitively involve gambling as an identified factor. In other words, in nearly 6 percent of the sample the alleged perpetrator had a gambling problem. This group accounted also for 20 percent of the losses. This is again skewed upwards due to the Fry's Electronics case in which the alleged perpetrator had a major gambling problem.

### Did the alleged perpetrator have a prior history of criminal activity?

Here we also have incomplete data, unfortunately. Nevertheless, only 5 in the sample of 174 were known to definitely have a prior criminal record. This represents only 3 percent of the sample. We would have expected a greater percentage and believe the true number is closer to between 5 and 10 percent. The 3 percent of cases with known criminal pasts accounted for 3.7 percent of overall losses – not significantly more (or less). However, we note that fully 80 percent of the alleged embezzlers with prior criminal histories, held finance & accounting positions – twice the overall percentage in the study.