# Get rich quick: How to embezzle from a government agency!

**The Marzieh Abedin Embezzlement Case Study**

*© 2023 - Rick Roybal*

# Learning Objectives

- Enumerate why vendor fraud and embezzlement threaten our organizations.
- Examine fraud characteristics.
- Recognize the warning signs of embezzlement.
- Retrace the steps of the fraudster's invoicing scheme.
- Implement essential controls to mitigate embezzlement and vendor fraud at all levels of an organization.

Marzieh's organization gave her the authority to source and approve payments to third parties. But she was wise to the lax internal control environment. During the COVID epidemic, she quickly and adeptly stole identities and set up fake third parties to bilk the Oregon Health Authority of $1.5 million. She took advantage of her employer and ultimately defrauded the citizens of Oregon in order to line her own pockets.



*Get Rich Quick*

# Rick Roybal

## Education

- MBA, Finance & Accounting, Regis University
- MA, Linguistics, Azusa Pacific University
- BA, Russian, Texas A&M University

## Internal & Vendor Audit Career

- Matador Resources 2022 - Present
- Martindale Consultants 2020 – 2022
- Discovery Natural Resources 2013 – 2020
- Bass Companies 2006 – 2012
- PwC 2005 - 2006

## Pre-Audit Career

- City University – Trencin, Slovakia
- University of North Texas
- Infor Global Solutions

## Organizations

- Oil & Gas Vendor Roundtable
  - 2013 – 2021
  - President and Chair
- ACFE
  - VP Fort Worth Chapter

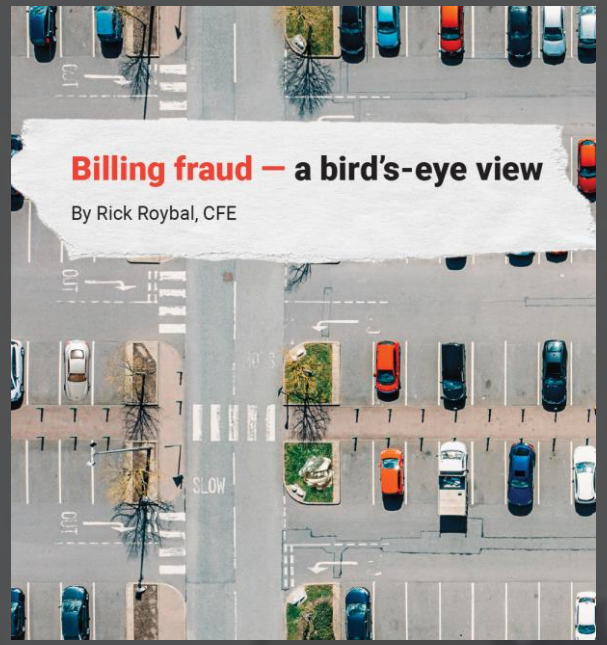
## Designations

- CFE – 2020
- CISA - 2005



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# Read more about it !

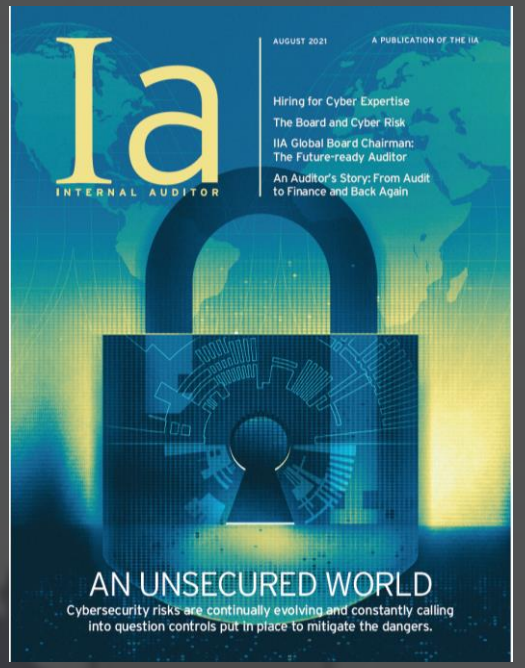









***Fraud Magazine*** **January/February, a publication of the Association of Certified Fraud Examiners Austin, TX ©2020**



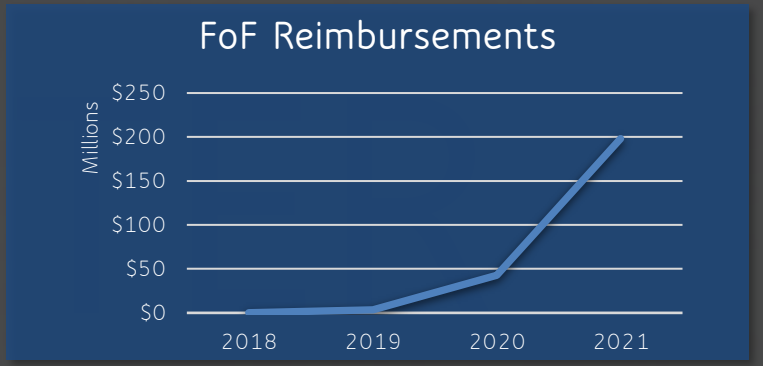
# Vendor fraud is a serious threat to our organizations.



1. Disruptions to the economy, such as financial downturns or pandemics, allow fraudsters to exploit our weaknesses.



- Feeding our Future (FoF), non-profit; Aimee Bock + 47 employees
- Accused of defrauding federal nutrition programs
- Charged w/ exploiting the relaxing of program requirements due to the COVID-19 pandemic; increasing amt of reimbursements
- FoF employees recruited others to open sites across Minnesota that inflated the number of children and meals they were serving






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# Vendor fraud is a serious threat to our organizations.

2. Economic booms allow fraudsters the ability to exploit the “ignorance is bliss” or “blind eye” syndrome.



- Evaldas Rimasauskas; Lithuanian
- Business Email Compromise (phishing)
- Fake vendor: Quanta (Latvia)
- Not the real Quanta (Asian-based)
- Lookalike invoices
- Facebook and Google duped for $120MM
- Extradited to US
- 5-year sentence for wire fraud

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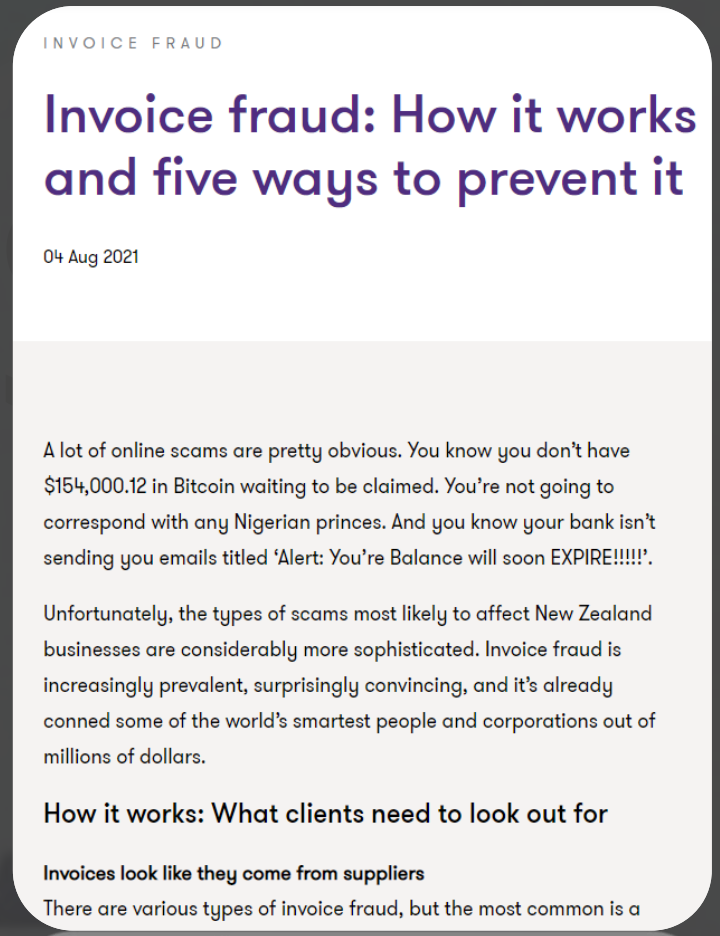
# Vendor fraud is a serious threat to our organizations.

3. The internet provides fraudsters access to the same information that we, the fraud fighters, have.

**Amy Yurish – AICPA FLS**
**Fraud Task Force**

"[f]raudsters have access to the same publications and guidelines that have helped organizations become more familiar with necessary internal controls. Thus, many times, perpetrators are as familiar as organizations are with the very types of internal controls intended to prevent them."

What happens when you google "Invoice Fraud Prevention"?



INVOICE FRAUD

## Invoice fraud: How it works and five ways to prevent it

04 Aug 2021

A lot of online scams are pretty obvious. You know you don't have $154,000.12 in Bitcoin waiting to be claimed. You're not going to correspond with any Nigerian princes. And you know your bank isn't sending you emails titled 'Alert: You're Balance will soon EXPIRE!!!!!'.

Unfortunately, the types of scams most likely to affect New Zealand businesses are considerably more sophisticated. Invoice fraud is increasingly prevalent, surprisingly convincing, and it's already conned some of the world's smartest people and corporations out of millions of dollars.

### How it works: What clients need to look out for

**Invoices look like they come from suppliers**

There are various types of invoice fraud, but the most common is a



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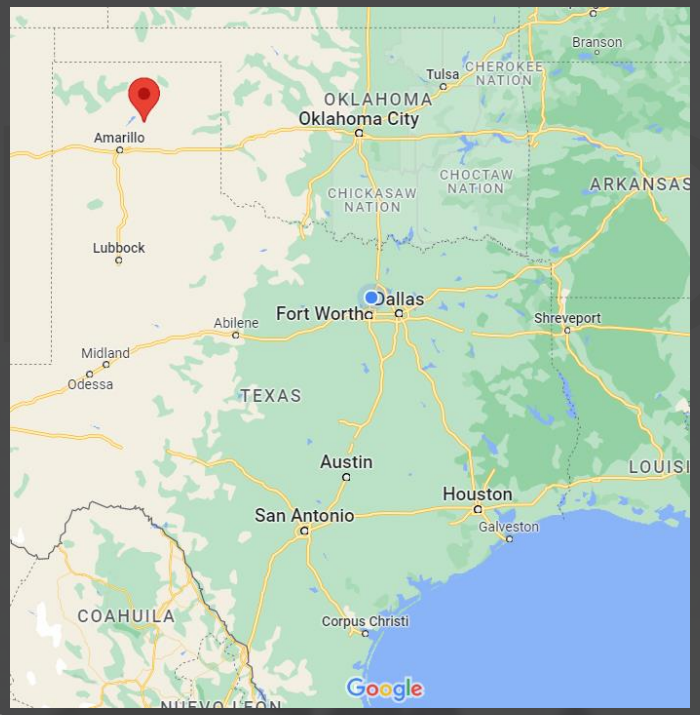
4. Technology facilitates fraudsters’ capabilities to outsmart, propagate, and mask their activities.



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# Vendor fraud is a serious threat to our organizations.

**4. Technology facilitates fraudsters' capabilities to outsmart, propagate, and mask their activities.**




8/16/2019 (*Friday*) – More than 20 TX municipalities reported ransomware attacks.

Borger reported business and financial operations were affected. Printers around the town were spitting out ransom threats.

REvil was behind the ransomware attack.

The TX Department of Information Resources (DIR) executed their cybersecurity incident plan.

A ransom was not paid.

REvil got in through their MSP's software.

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3. The internet provides fraudsters access to the same information that we, the fraud fighters, have.



4. Technology facilitates fraudsters’ capabilities to outsmart, propagate, and mask their activities.



5. If vendor auditing is performed by AP or even Operations, fraudsters can navigate undetected and take advantage of the “open door” policy.



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# Embezzlement is a serious threat, too!



1. Embezzlers are often trusted employees: they are the first to arrive on Monday and the last to leave on Friday. Some are in positions of leadership.



2. Embezzlers use various methods of stealing funds: create fictitious vendors or tamper with company checks and credit cards.

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**Did you know?** 8 years: The average period of time an embezzler has been working at the company they steal from.

# Embezzlement is a serious threat, too!



**3. Their role opens the door to exploitation of their organization's control gaps and weaknesses. They are able to commit embezzlement due to complacency in accounting methods and improper or inadequate oversight of funds and assets.**




- Sam Bankman-Fried, Founder & CEO of bankrupt FTX and Alameda Research (AR)
- AR's balance sheet full of FTX native token (grants holders a discount on trading fees)
- Unusually close relationship identified in early Nov 2022, but SBF wanted all to know there was a separation
- Mid-2020 SBF asked FTX's chief engineer to tweak code to exempt AR's assets from selling off if it was losing too much money.
- The code change allowed AR to keep borrowing funds from FTX



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3. Their role opens the door to exploitation of their organization's control gaps and weaknesses. They are able to commit embezzlement due to complacency in accounting methods and improper or inadequate oversight of funds and assets.



4. Embezzlement may not start off with a big heist. Instead, embezzlers *tend* to take small amounts over a period. The miniscule amounts accelerate to larger gains as they begin to feel more comfortable with their actions.



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# Part I

**Primer on Embezzlement**

“Champions are brilliant at the basics.”

***— John Wooden***

# Do you know the difference?



## Larceny/Theft

Commonly known as theft. Take possession of another's property without consent with the intent of permanently depriving the original owner of their property



## Embezzlement

A very narrow definition that possesses elements of larceny and fraud. The theft is committed through a person's position, granting them access to the property.



**Did you know?** 33% of embezzlement perpetrators work in accounting or finance.

# Let’s take a little quiz.

Embezzlement manifests itself in various forms. Can you tell the difference between larceny and embezzlement?

You’re a teenager: Steal blank checks from a neighbor’s car.



Larceny

Why? It’s without the neighbor’s consent.

You’re a teenager: Forge customers’ checks you’ve been asked to deposit



Embezzlement

You’re an AP clerk: Submit fictitious vendor invoices to your company.



Embezzlement

You’re an AP clerk: Take cash colleagues left in their offices.



Larceny

You’re a church admin: Take some cash from the offering when passed down your pew.



Larceny

You’re a church admin: Take cash from the offering you’ve been asked to count.



Embezzlement

# Why do they do it?

## What exactly is fraud? (It's more than just a triangle.)

A knowing misrepresentation of the truth or concealment of a material fact to *induce* another to act to his or her detriment — *Black's Law Dictionary*

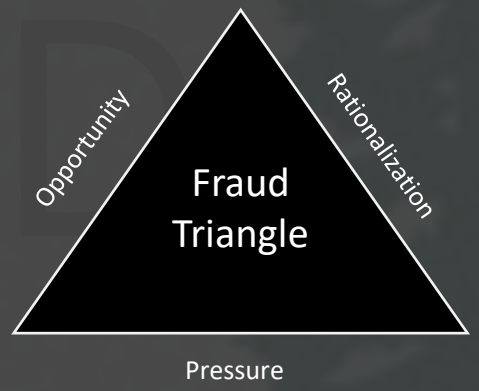
Criminologist Donald Cressey (1973) hypothesized that there are three reasons why people commit fraud.

He argued that there must be:

1) a non-shareable problem (pressure),

2) an opportunity for trust violation, and

3) a set of rationalizations that define their behavior as appropriate.







Wolfe and Hermanson (2004) argued for an expanded version.

They argued that there must be:

1) a non-shareable problem (*pressure*),

2) an *opportunity* for trust violation,

3) a set of *rationalizations* that define their behavior as appropriate, and

4) *capability.*

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# Why do they do it?

## What is the capability aspect of the 'Fraud Diamond'?




Wolfe and Hermanson (2004) argued for an expanded version.

They argued that there must be:

1) a non-shareable problem (*pressure*),
2) an *opportunity* for trust violation,
3) a set of *rationalizations* that define their behavior as appropriate, and
4) capability -

### *Capability*

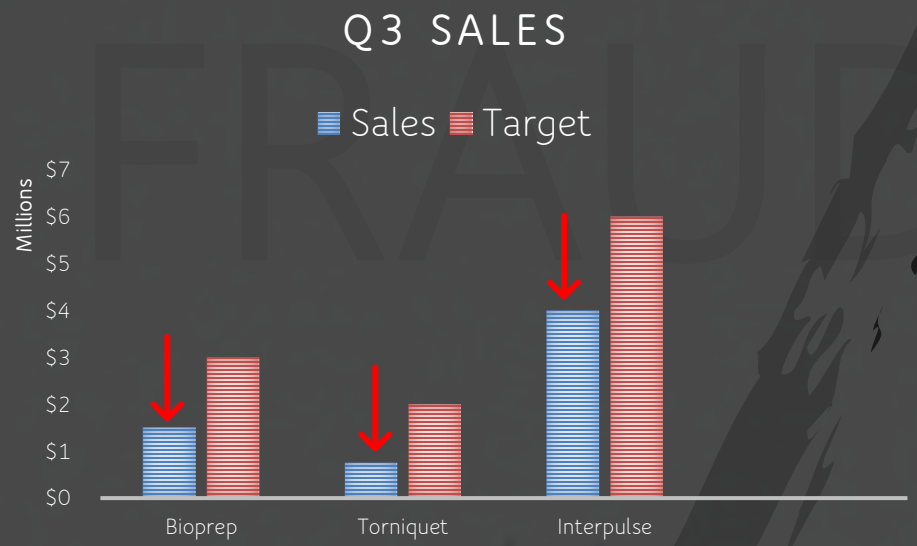
- have a role or position that allows them to exploit the opportunity
- able to exploit internal control weaknesses
- have confidence (ego)
- coerce others to commit or conceal the fraud
- lie effectively and consistently
- deals well with stress

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# Is fraud prevalent in the health care industry?

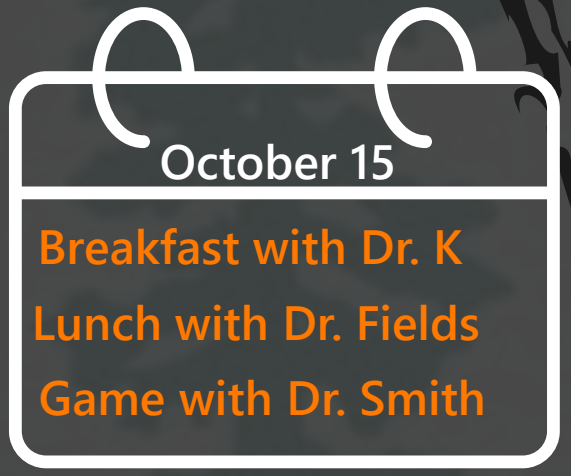
## Pressure

"I keep missing my sales targets. Will I get a bonus this year?"




## Opportunity

Close relationships between a sales director and a doctor




## Rationalization

"Everyone skims a bit from the top."
"Kickbacks are standard for our industry."



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**How prevalent is fraud in this industry?** In July 2022, The DOJ announced criminal charges against 36 defendants in 13 federal districts across the United States for more than $1.2 billion in alleged fraudulent telemedicine, cardiovascular and cancer genetic testing, and equipment schemes.

# Part II

**Right From the Start**

“Anyone who thinks money is ever ‘just money’ couldn’t have much of it.”

— ***Quiz Show*** **(1994)**

# Oregon Health Authority

- Govt agency – oversees most of the state's health-related programs, e.g. behavior health
- Mission – help Oregonians achieve optimum physical, mental, and social well-being
- Federal Spend - oversee investment of $1.9B
- Employees – ~5,000



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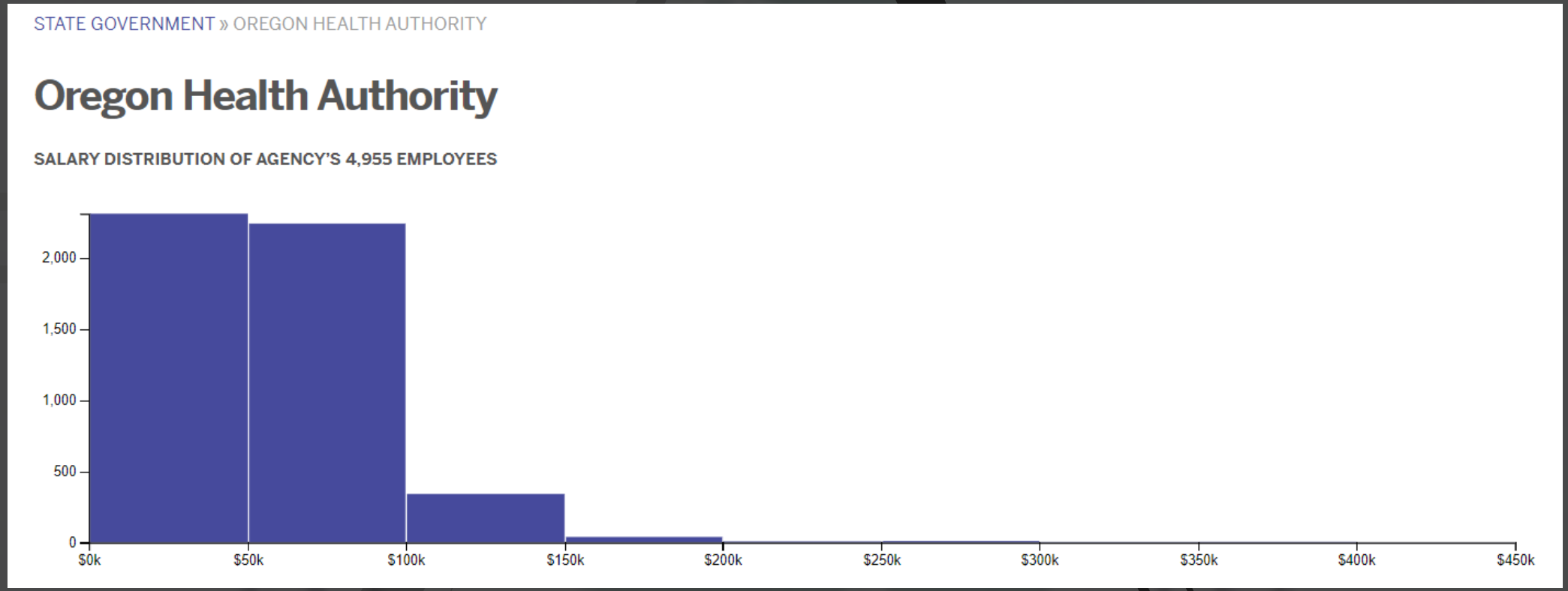
# Do you think fraud is prevalent within the OHA?

| Name | Position | Agency | Total pay |
|---|---|---|---|
| Rosko, Thomas Joseph | Physician Specialist | Oregon Health Authority | $413,395.82 |
| Peykanu, James Arash | Physician Specialist | Oregon Health Authority | $413,316.57 |
| Sethi, Simrat | Supervising Physician | Oregon Health Authority | $397,601.13 |
| Gundroo, Rubina | Physician Specialist | Oregon Health Authority | $366,455.65 |
| Walker, Sara Careen | Supervising Physician | Oregon Health Authority | $364,793.06 |
| Christianson, Les | Physician Specialist | Oregon Health Authority | $352,856.59 |
| Stone, Robert C | Physician Specialist | Oregon Health Authority | $351,482.57 |
| Read, Jamie Nevelle | Physician Specialist | Oregon Health Authority | $326,089.03 |
| Teglassy, Zoltan | Supervising Physician | Oregon Health Authority | $323,547.98 |
| Karlapati, Surya K | Physician Specialist | Oregon Health Authority | $321,639.25 |



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# Do you think fraud is prevalent within the OHA?




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# Vaccination Program

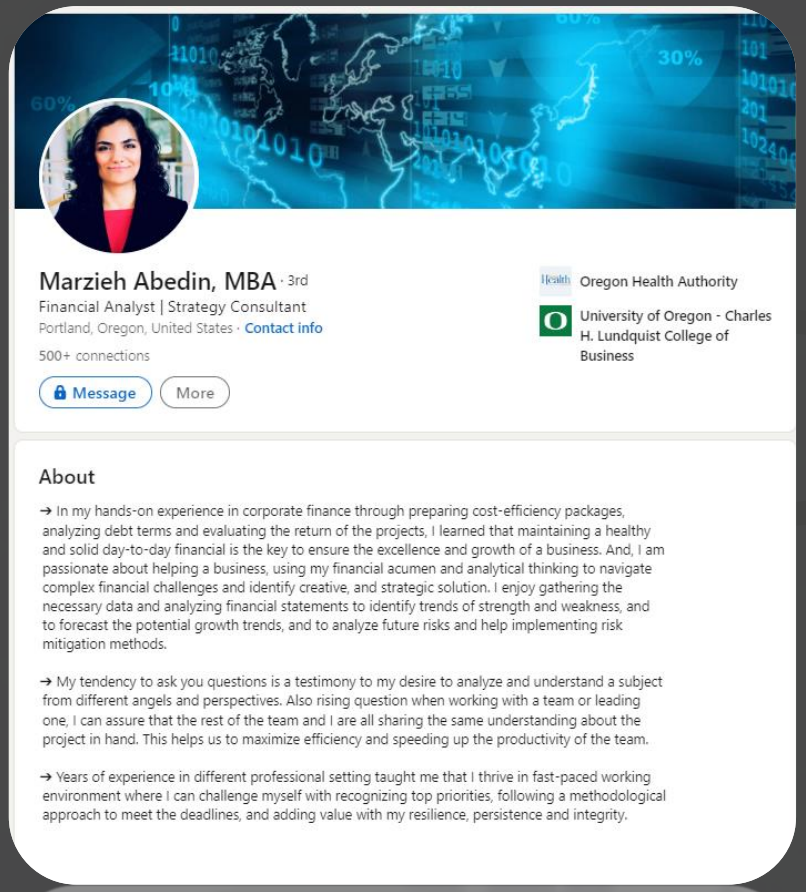
Oregon, like many states, opened up vaccination sites. The OHA coordinated these vaccination centers.

**Multnomah Greyhound Park**
**Dec. 5 through Dec. 11, 10 a.m. to 5 p.m.**
**Baker County Fairgrounds**
**Dec. 12 through Dec. 14, 10 a.m. to 5 p.m.**
**Pacific University**
**Dec. 11 through Dec. 14, 10 a.m. to 5 p.m.**
**Clackamas County, Abundant Life Church**
- **Dec. 12 through Dec. 14, 10 a.m. to 5 p.m.**
- **Late start on Dec. 12, 1 p.m. to 5 p.m.**

**Jackson County Expo Center**
- **Every Monday through Thursday, noon to 7 p.m.**
- **Sundays 11 a.m. to 4 p.m.**
- **Sundays in December, family fun clinic, 11 a.m. to 4 p.m.**

**Multnomah County, Gresham – Winter Wonderland**
**Mondays through Saturday, noon to 7 p.m.**
**Sundays 11 a.m. to 4 p.m.**
**Tektronix, Beaverton**
**Monday through Saturday, noon to 7 p.m.**
**Sundays, 11 a.m. to 4 p.m.**
**Marion County, Oregon Health Authority Warehouse, 3455 Aumsville Hwy SE, Salem**
**Beginning Dec. 6:**
**Every Monday through Saturday, noon to 7 p.m.**
**Sundays 11 a.m. to 4 p.m.**
**Columbia County Fairgrounds**
**Dec. 6 through Dec. 10, 10 a.m. to 5 p.m.**
**Union County, Union County Fairgrounds**
**Dec. 5 through Dec. 10, 10 a.m. to 5 p.m.**

# Who is Marzieh Abedin?



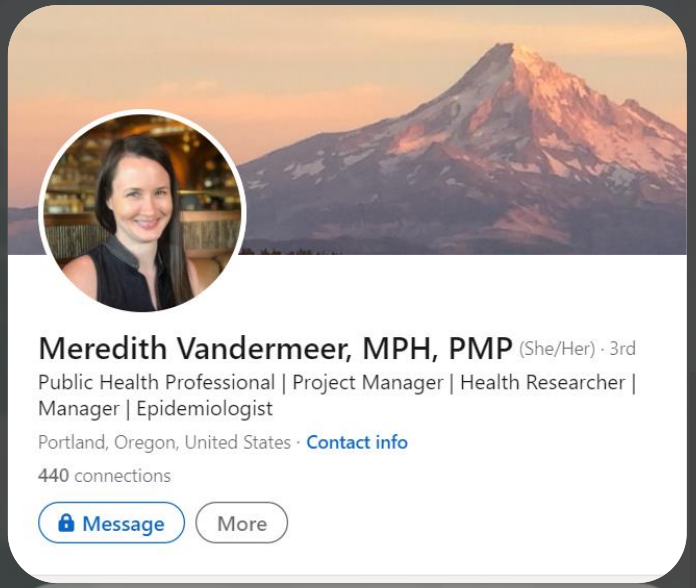

- Hired as a program analyst in its COVID-19 Response and Recovery Unit in 3/21.
- Starting salary of $7,107 a month, (~$85,000/year)
- Coordinated the approval of invoices submitted to the OHA for services related to the vaccination response
- Payments came from FEMA's COVID-19 funds

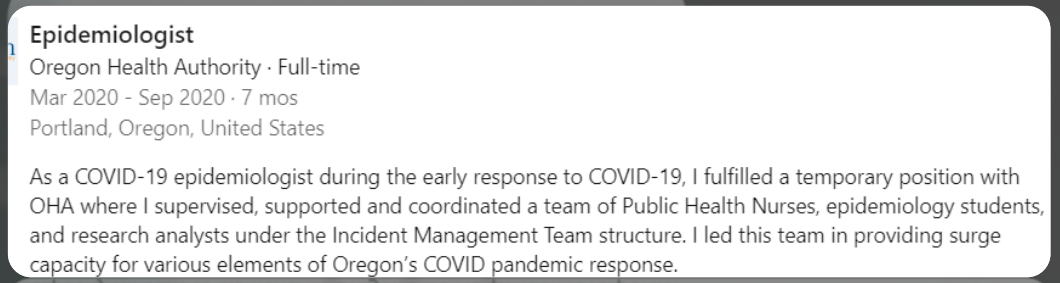
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# Marzieh Abedin and Her Schemes

- Stole multiple identities
- Falsified documentation
- Created two false internet domains
- Registered a false business
- Set up false bank accounts

**The DOJ said:** "she used her position to create fraudulent invoices for a sham company and would then generate fake records of the approval process to authorize payments to the fraudulent bank accounts she opened."




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# Right from the Start

## 2021 Timeline

### March
Work begins at OHA

### May
Businesses set up on SoS

### November
Investigation began

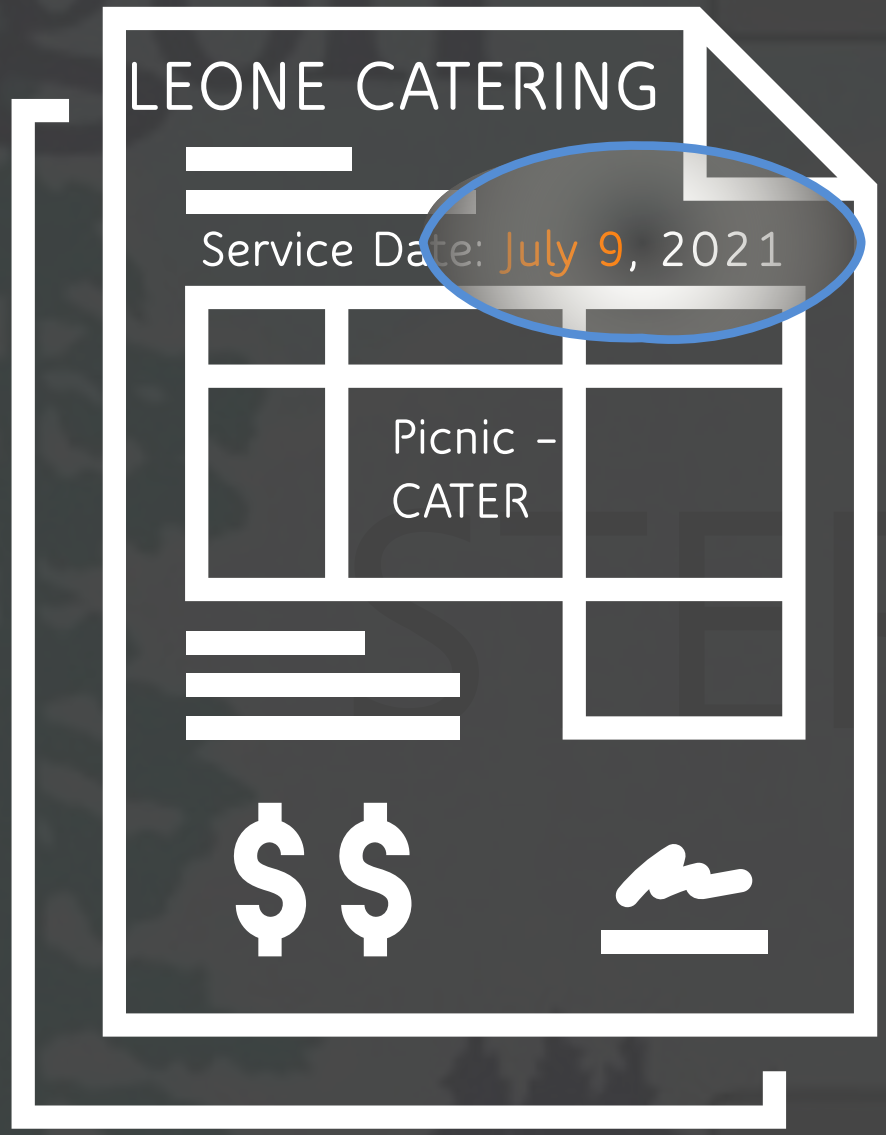
## $1.5MM in fraudulent payments



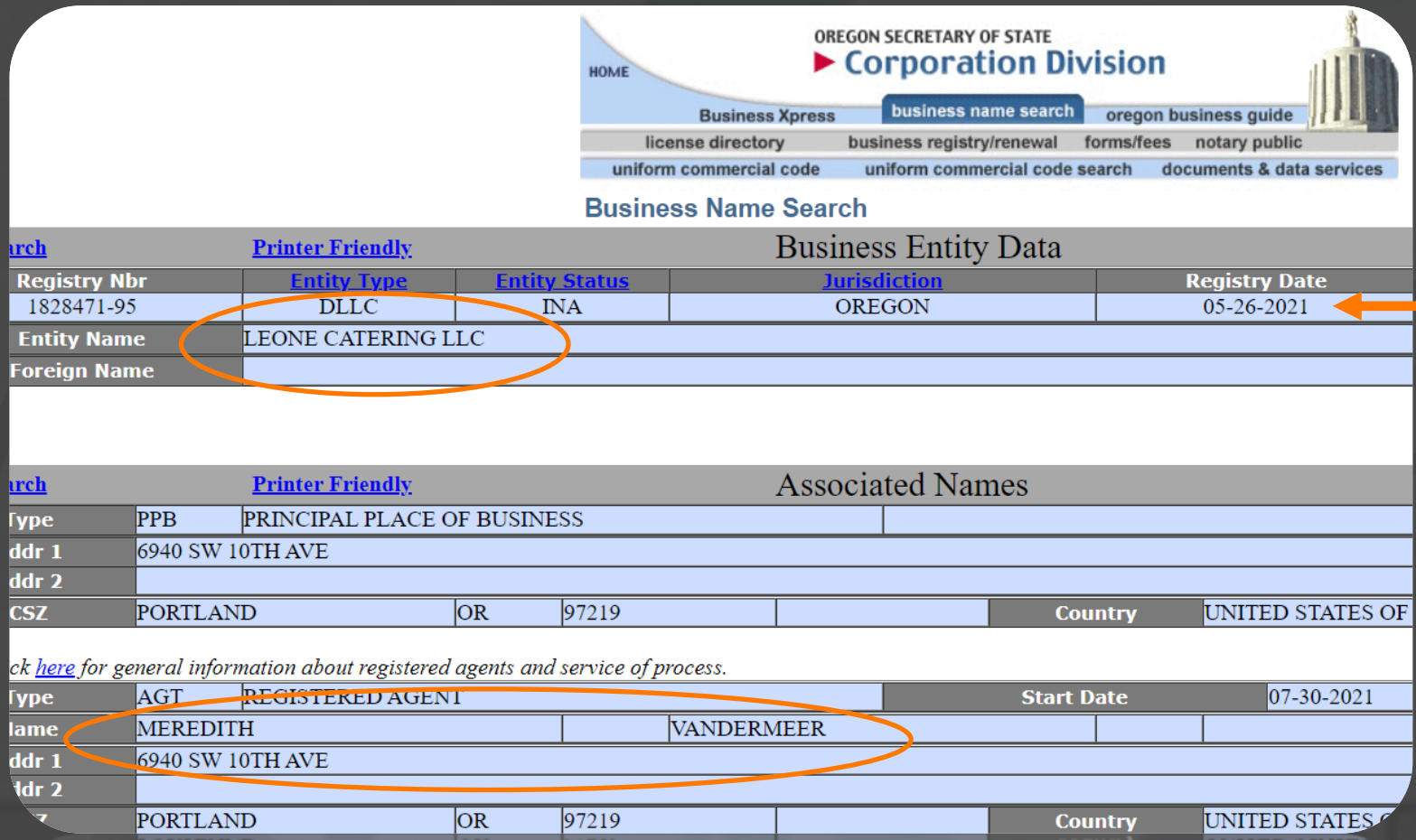
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# Mismatches


JULY 10, 2021
Let's Vaccinate, Oregon
COMPANY PICNIC!


LEONE CATERING
Service Date: July 9, 2021
Picnic -
CATER
$ $

# Will the real Ms. Vandermeer step forward?



OREGON SECRETARY OF STATE
Corporation Division

HOME | Business Xpress | business name search | oregon business guide | license directory | business registry/renewal | forms/fees | notary public | uniform commercial code | uniform commercial code search | documents & data services

Business Name Search

arch | Printer Friendly

Business Entity Data

| Registry Nbr | Entity Type | Entity Status | Jurisdiction | Registry Date |
|---|---|---|---|---|
| 1828471-95 | DLLC | INA | OREGON | 05-26-2021 |
| Entity Name | LEONE CATERING LLC | | | |
| Foreign Name | | | | |

May 2021

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Associated Names

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Type | PPB | PRINCIPAL PLACE OF BUSINESS | | | | | |
| Addr 1 | 6940 SW 10TH AVE | | | | | | |
| Addr 2 | | | | | | | |
| CSZ | PORTLAND | OR | 97219 | | Country | UNITED STATES OF | |

*ck here for general information about registered agents and service of process.*

| | | | | | | |
|---|---|---|---|---|---|---|
| Type | AGT | REGISTERED AGENT | | Start Date | 07-30-2021 | |
| Name | MEREDITH | | VANDERMEER | | | |
| Addr 1 | 6940 SW 10TH AVE | | | | | |
| Addr 2 | | | | | | |
| CSZ | PORTLAND | OR | 97219 | Country | UNITED STATES | |

# Will the real Ms. Vandermeer step forward?

6940 SW 10th Avenue
Portland, Oregon

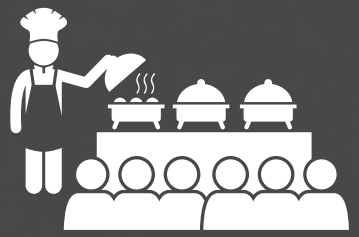
So, who do you think lives here?

~~Meredith Vandermeer~~

Marzieh Abedin ✓



# Fake Company Domains



mabedin@leonecatering.com

Fake company, real domain – didn't arouse suspicion



mabedin@t-bev.org VS. xxxxx@t-bev.com

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# Indicted!

**21** Criminal Count indictment

| | | |
|---|---|---|
| Theft | Forgery | Identity Theft |
| Aggravated Theft | | Aggravated Identity Theft |
| Computer Crime | | Official Misconduct |

**Oregon DOJ requested a warrant**

**Guess who fled the country?**



# Part III

## Avoiding These Pitfalls

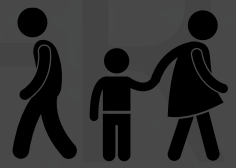
"Two little mice fell in a bucket of cream. The first mouse quickly gave up and drowned. The second mouse wouldn't quit. He struggled so hard that eventually he churned that cream into butter and crawled out. Gentlemen, as of this moment, I am that second mouse."

**— *Catch Me If You Can* (2002)**

# What are the warning signs of fraud?

The 2020 ACFE State of the Nation report states there are seven red flags.

12%



Problems at home

13%



"Wheeler-Dealer" attitude

15%



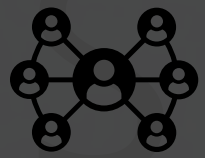
Unwillingness to share duties

13%



Irritability, suspiciousness, defensiveness

19%



Unusually close relationships

26%



Financial difficulties

42%



Living beyond means



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# Are there “pink” flags we should worry about?

Kelly Paxton: Embezzlement: How to Detect, Prevent, and Investigate Pink-Collar Crime

Let’s first revisit the definition of white-collar crime. According to the FBI: nonviolent crime often characterized by deceit or concealment to obtain or avoid losing money or property, or to gain a personal or business advantage.

Pink-Collar Crime is the same type of crimes but with a focus on women. Paxton’s argument is that women hold unique roles and positions within an organization allowing them to commit fraud.

- 87.3% of administrative assistant roles held by women
- 87.6% of payroll clerks are women
- 84.6% of bookkeepers are women
- 75.7% of revenue specialists
- 75% of accounts payable managers



# What are the most common schemes employed in embezzling?

- Using company assets for personal gain
- Stealing assets
- Forging company documents
- Manipulating account balances
- Creating fictitious accounts
- Accepting favors
- Short-changing customers during a transaction



# What strategies do companies implement to mitigate embezzlement and vendor fraud?

## Segregation of Duties



*Think* through SOD. Consider all risks before implementing. Review combined job responsibilities.

## Auditing Source Documents



*Look* for red flags: missing support, unsophisticated invoices, document alterations, unusual amount of out-of-sequence check numbers.

## Background Checks



*Review* the background check process. Go beyond the basic check. Re-perform the check when there's a promotion or role change.

## Employee Counseling



*Provide* employee counseling. Facilitate assistance for employees. Talking through an issue may stem any potential crimes.



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# Are there additional methods to prevent embezzlement?

- Develop and enforce cash-handling, inventory, shipping/receiving policies
- Enforce dual control over cash drawers, negotiable documents
- Require all refunds to be approved by supervisor
- Rotate tasks among personnel
- Conduct frequent, unannounced cash counts
- Require vacation



# What are best practices when it comes to vendor oversight?

*Keep* a professional distance



Yes, it must be kept and be perceived by others. Without this distance, conflicts of interest can occur.

*Review* a vendor's background before signing a contract



A vendor due diligence process is an absolute must.

*Ensure* a contract with strong language



A strong contract with audit rights, a conflict-of-interest stipulation, clear pricing provisions, and requisition protocols is a MUST!

*Train* employees to recognize these issues



Perform periodic training for <u>all</u> employees on recognizing and avoiding conflicts of interest, identifying vendor fraud, and creating and maintaining an ethical organization.

*Implement* a robust vendor audit program



Conduct routine vendor audits to ensure goods and services have been received and validate invoice amounts.



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# Basic Vendor Audit Program

"Routine vendor audits send the message that the entity is always monitoring the vendor to ensure that it is complying with ethics or business standards and contractual agreements." – Craig Greene CFE, CPA "Audit those Vendors" – FRAUD May / June 2003

- Review the contract, billings, deliverables
- Perform a risk assessment; discuss with stakeholders
- Exercise your company's right to audit
- Analyze invoices and any supporting documentation



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# Where do we go from here?

- Marzieh's case is still open.
- Assess risks at your own organization. Are there control gaps which would allow an employee to embezzle?
- Make third-party risk a first-priority challenge.



# References


1. “ACFE Report to the Nations”, https://www.acfe.com/report-to-the-nations/2020/

2. Fraud Examiners Manual: 2021 Edition, Association of Certified Fraud Examiners, 1990-2021, p. 1.455 - 1.456

3. Fraud Examiners Manual: 2021 Edition, Association of Certified Fraud Examiners, 1990-2021 p 1.627 – 1.628

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