

## **The Kosse State Bank Catastrophe: Anatomy of a Big Fraud in a Small Town**

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### **INTRODUCTION**

One of the Accounting Education Change Commission's (AECC) recommendations was that educators use experiential learning as a way to stimulate active learning by students. While the cases found in Michael Knapp's casebook are excellent, the purpose of this study is to describe a case that seems relatively unknown to accounting educators, yet has a very sad place in Texas history because a person was killed because of the embezzlement problem. Also, contrary to the information that most computer fraudsters are men, the primary perpetrator in this case was a woman. Our hope is that educators will be interested in the case and share it with their students so that they can learn from the mistakes of others and perhaps prevent this type of fraud from occurring again.

### **Basic Facts of the Case**

The location of the fraud was Kosse, Texas – a small town (population 505) nestled in Central Texas. The town's theme is "A Small Town with a Big Heart" and people enjoyed the small-town "we trust everyone" environment. At the center of the business district (one block) was Kosse State Bank – a place where people both banked and socialized in town. The Kosse State Bank had four full-time employees: an Executive Vice President and three clerical employees. All of the employees had been there a long time and were considered trustworthy. The pivotal problem in the case related to technological knowledge in that only one employee knew how to use the bank's accounting software.

### **People Involved in the Fraud**

The primary perpetrator of the fraud was bank employee, Dava Beth Truitt. She was native to the community, married to her high school sweetheart, and raising two teenage sons at the time of the fraud.

Ms. Truett had about 20 years experience at the bank as a teller and as Head Cashier – she was also the only person in the bank that knew how to use the computer. In addition to her job, Dava Beth Truett served as a Kosse City Council member for several years. While some people’s perception of Dava was that she had an “elevated attitude”, she had no record of being in any trouble with the law.

Dava Truett’s longtime husband, Jerry Truett, was the owner of a small trucking company and characterized as a “Texas Good-ole Boy”. However, he too had no record of any serious problems with the law and was considered a hard-working member of the community.

Lynn Bennett was a 68-year-old business owner and a long-time Kosse community member too. One day, he noticed that \$30,000 was missing from his bank account and he called to inquire about the situation.

Michael Wells was the Executive Vice President of the Kosse State Bank. Mr. Wells had graduated from Texas A&M University, but he did not major in Accounting. His strength seemed to be with people. At age 52, Mr. Wells was considered a pillar of the community as well as a good husband and father. He served as a Baptist Church Deacon and was the local School Board President. Most local people’s perception of Michael Wells was that he did not have an enemy in the world. People were completely shocked when he turned up dead in the Kosse State Bank one morning.

### **Signs of the Truitts’ Lifestyle “Imbalances”**

Despite the fact that neither Dava nor Jerry Truett had high-paying jobs, they seemed to have more recreational assets than anyone else in the town. They had two \$35,000 matching pickup trucks, four John Deere riding lawn mowers, seven recreational 4-wheelers, an outboard/fiberglass speedboat, and a lake house in addition to their nice home. Additionally, they exhibited purebred cattle at livestock shows with a \$50,000 cattle trailer.

### **People’s Rationalization of Their Lifestyles**

The Truett’s lifestyle certainly raised some eyebrows in Kosse’s small town community, but people rationalized the situation based on speculation that they had inherited land in the area. People also thought that they were living well of the proceeds from a gas well in addition to the double income from their jobs. The biggest problem in terms of the community and the bank was the overwhelming small-town trust attitude toward people that had been in the community for a long time.

### **Bank Security Issues**

The overall trust attitude extended to the bank in terms of the delay in discovering the fraud. The accounting issue involved the few segregation of duties...only one person in the bank knew how to use the computer. The segregation of duties problem was that this person (Dava Truett) was involved with both the recordkeeping and custodial functions at the bank. Unfortunately, the trust attitude seemed to also extend to the external audits required by financial institutions – these audits never uncovered the long-time embezzlement problem. Finally, the last equipment deficiency was that there was no surveillance camera in the bank or in the outside area of the bank. This important equipment would have answered many questions related to the details of the Michael Well’s murder.

### **After Mr. Bennett’s Complaint of Missing Money**

When Mr. Bennett inquired about the missing \$30,000 in his account, Michael Wells agreed to meet with him. However, a strange telephone call to Michael Wells’ home the night before he was to meet with Mr. Bennett caused him to change his typical professional routine. Mr. Wells was unsure of the caller’s ID because he did not recognize the voice, but he agreed to come into the bank early the next morning to take care of some bank business before the bank opened. Since Dava Truett was the notary, she was also asked to come to the bank.

The next morning, Michael Wells’ wife received a telephone call from Dava Truitt - she claimed to have been knocked out by an intruder and she awoke to find Michael shot in the back three times. His dead body was found near the vault, but nothing in the bank was taken. Kosse townspeople became very

suspicious when Dava Truett refused treatment for any possible injuries. Michael Wells, the pillar of the Kosse community was dead and there were no actual witnesses nor was there any murder weapon found.

### **Discovery of the Fraud**

When people and investigators found that there was no money missing from the bank during this so-called “robbery”, they decided to conduct an audit. When the subsequent audit found more than \$700,000 missing, both Dava Truett and Jerry Truett were arrested for embezzlement. Even though the Kosse State Bank sued the Truitts for the missing money, it had to be taken over by another bank because of their poor finances/embezzlement reality. The situation threatened to bankrupt the entire county because most townspeople wanted “justice” and believed that the Truettts had murdered Michael Wells, but there was not sufficient evidence to support their beliefs because there were no witnesses or murder weapon found in the case.

### **Litigation Results**

Because of the “audit trail” in the case, an embezzlement case was strong. Both Dava Beth Truett and Jerry Truett were found guilty of embezzlement, yet sentencing was delayed until after the results of the murder trial. In an act that was both cost-effective for the county and psychologically healing for the community, Dava Beth truett plead guilty to murder and received a concurrent term of 40 years without parole. She will be in prison until age 82.

Jerry Truitt took an “innocent spouse” defense and an unusual twist in the case helped him with sentencing. With Michael Wells’ widow testifying on his behalf, he simply received 10 years probation for his role in the embezzlement and possible murder plot.

As much as the authors know, there has never been any restitution in the case.

### **Epilogue**

The Kosse Baptist Church now has a meeting hall that is named in honor of Michael Wells and it a constant reminder of both his life and his untimely death because of fraud. The new bank ownership brought in completely new tellers – two somewhat innocent employees lost their jobs because of the fraud. As people approach the town of Kosse, they still are greeted with the signs “A Small Town with a Big Heart”, but there has been a loss of innocence for the whole town with this embezzlement and murder.

### **CONCLUSION**

The purpose of this research is to simply present some basic facts relating to an accounting fraud that ultimately resulted in a murder. Three lessons learned the hard way were 1) segregation of duties is imperative for good internal control, 2) “red flags” should be investigated with lifestyles do not match earnings, and 3) safety is an important concept when dealing with embezzlements and fraud. Again, the authors hope that students can learn from this case so that preventative measures are used to keep this type of tragedy from happening again.

### **REFERENCES**

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