

# Athletes targeted by fraud

Almost \$600 million in potential fraud identified between 2004 and 2018

By Steve Spiegelhalter and Jesse Silvertown



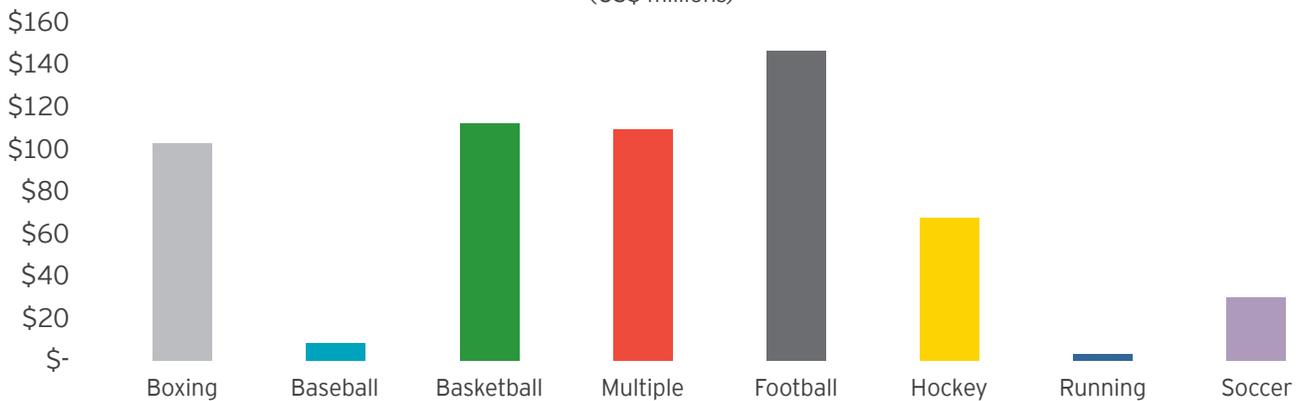


“Professional athletes alleged almost \$600 million in fraud-related loss.”

### Athletes targeted by fraud

Money draws criminals like moths to a flame – and today, there may be no more enticing flame than professional sports. It is no surprise, then, that fraudsters consistently target professional athletes. The fraudsters’ success, however, is a bit more surprising: from 2004 through 2018, professional athletes alleged almost \$600 million in fraud-related loss.<sup>1</sup> In light of the difficulty in detecting fraud and the reluctance of victims to acknowledge it publicly,<sup>2</sup> that’s likely not the half of it.

**Alleged fraud losses by athletes’ sport\***  
(US\$ millions)



\*Based on publicly available data from 2004-18.

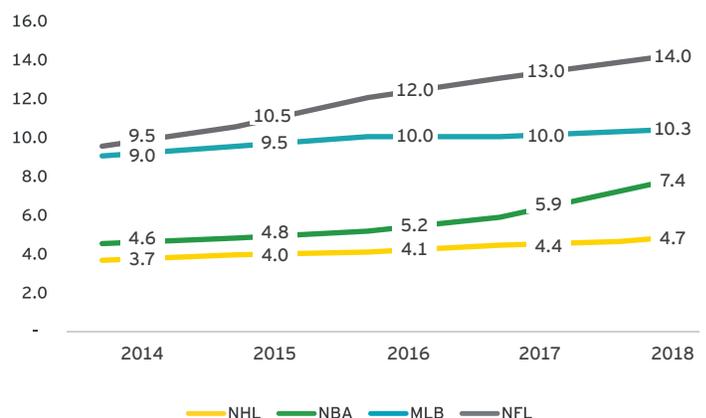
Even more alarming, that incidence of fraud in sports is trending in the wrong direction, as the number and value of known cases have steadily increased nearly every year for the past decade. Clearly, athletes are becoming a bigger target of fraud.

### A record amount of money in sports

The amount of money to be stolen is growing. Industry data analyzed showed record revenues within the sports industry. For an example, look at four of the major professional leagues in North America: Major League Baseball (MLB), the National Basketball Association (NBA), the National Football League (NFL) and the National Hockey League (NHL). All four leagues continue to see record revenues, buoyed by stronger fan interest,<sup>3</sup> an explosion in media-rights fees,<sup>4</sup> expansion and smart monetization strategies in ticketing,<sup>5</sup> merchandising<sup>6</sup> and partnerships.<sup>7</sup>

Other sports leagues or associations, like Major League Soccer<sup>8</sup> and the Ultimate Fighting Championship (UFC),<sup>9</sup> have also seen significant revenue growth, as have sports-adjacent industries like agencies,<sup>10</sup> media-rights companies,<sup>11</sup> e-sports,<sup>12</sup> gaming and daily fantasy leagues.<sup>13</sup> In fact, estimated annual revenue across the entire sports industry is expected to rise to \$80.3 billion by 2022.<sup>14</sup> That is 33% higher than it was only a few years ago.<sup>15</sup>

**North American professional sports revenue\***  
(US\$ billions)



\*Based on publicly available data from 2014-18.

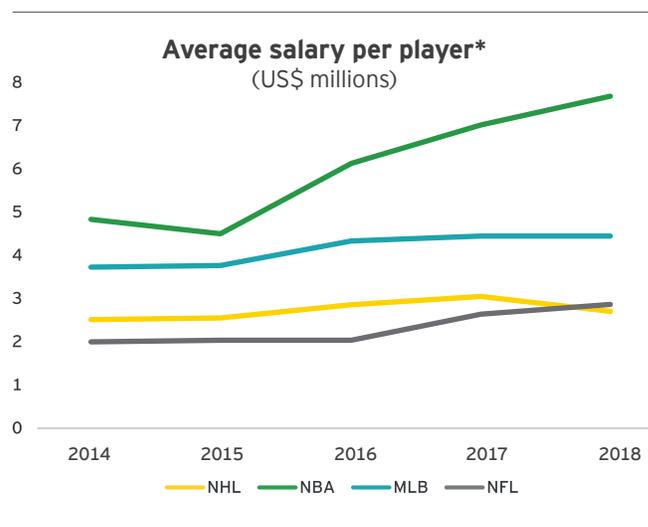
Why is revenue an important metric? Most professional leagues exhibit a direct or indirect link between revenues and the total amount of player salaries. Since salaries are a primary source of income for athletes, higher salaries increase the size of the target painted on the athletes' backs.

In 2017, the average salaries of athletes in these four leagues ranged from \$2.7 million to \$7.1 million, the highest amounts recorded in at least five years.<sup>16</sup>

A professional athlete's salary often is only one aspect of an athlete's public-facing brand and net worth. In 2017, the 100 top-earning athletes earned approximately \$887 million in endorsements and sponsorships, or 40% of their total salaries.<sup>17</sup> *TIME* magazine recognized six athletes among the most influential people of 2017.<sup>18</sup> Eighteen of the top 100 followed accounts on Instagram belong to athletes.<sup>19</sup> As athletes have increased their efforts to build diversified brands, fraudsters also have increased their efforts to take a piece of the payout.

### The impact of fraud on athletes since 2004

Our research shows that potential fraud is increasing at rates comparable to revenue growth. From 2004 through 2018, athlete victims identified in legal proceedings suffered over \$585 million in alleged losses. The losses and the efforts to recoup them are only picking up steam: legal proceedings filed between 2016 and 2018 accounted for \$189 million, or 32%, of all identified losses from 2004 to 2018.



\*Based on year of championship game.

<sup>1</sup> EY has assembled a database of sources concerning the losses allegedly suffered by professional athletes. The database includes publicly available criminal, civil and bankruptcy pleadings, along with secondary research.

<sup>2</sup> Mary Kreiner Ramirez, "Just in Crime: Guiding Economic Crime Reform After the Sarbanes-Oxley Act of 2002," Loyola University Chicago Law Review, 2003.

<sup>3</sup> "Five Key Trends That Are Driving the Business of Sports," *Stanford Graduate School of Business*, <https://www.gsb.stanford.edu/insights/five-key-trends-are-driving-business-sports>, accessed February 20, 2018.

<sup>4</sup> "North American Sports Market At \$75.7 Billion By 2020, Led By Media Rights," *Forbes*, <https://www.forbes.com/sites/darrenheitner/2016/10/10/north-american-sports-market-to-reach-75-7-billion-by-2020/#29f5458d217b>, accessed February 20, 2018.

<sup>5</sup> "Dynamic ticket pricing use takes off, and teams hope it'll lure fans back into sports stadiums," *CNBC*, <https://www.cnbc.com/2017/12/01/dynamic-ticket-pricing-use-takes-off-and-teams-hope-itll-lure-fans-back-into-sports-stadiums.html>, accessed February 20, 2018.

<sup>6</sup> "Licensed Sports Merchandise Market to reach US\$48.17 Billion by 2024 - A New Research Report by Transparency Market Research," *Cision PR Newswire*, <http://www.prnewswire.com/news-releases/licensed-sports-merchandise-market-to-reach-us4817-billion-by-2024---a-new-research-report-by-transparency-market-research-597749011.html>, accessed February 20, 2018.

<sup>7</sup> "North American Sports Market At \$75.7 Billion By 2020, Led By Media Rights," *Forbes*, <https://www.forbes.com/sites/darrenheitner/2016/10/10/north-american-sports-market-to-reach-75-7-billion-by-2020/#29f5458d217b>, accessed February 20, 2018.

<sup>8</sup> "MLS Records Banner Year In 2016, Cements Position Among Top U.S. Pro Sports Leagues," *Forbes*, <https://www.forbes.com/sites/markjburns/2016/10/26/mls-records-banner-year-in-2016-cements-position-among-top-u-s-pro-sports-leagues/#172af0278a2e>, accessed February 20, 2018.

<sup>9</sup> "Report: UFC Profited \$157 Million In 2015, Over Double Its 2014 Total And 5-6 Times More Than WWE," *Forbes*, <https://www.forbes.com/sites/mattconnolly/2016/06/03/report-ufc-profited-157-million-in-2015-over-double-its-2014-total-and-5-6-times-more-than-wwe/#442440f4591a>, accessed February 20, 2018.

<sup>10</sup> "20+ Sports Agents Discuss Business Evolution, What's Ahead In 2017," *Forbes*, <https://www.forbes.com/sites/markjburns/2016/12/22/20-sports-agents-discuss-business-evolution-whats-ahead-in-2017/#443347766300>, accessed February 20, 2018.

<sup>11</sup> "Media rights to trump ticket sales by 2018," *Street & Smith's SportsBusiness*, <http://www.sportsbusinessdaily.com/Journal/Issues/2015/10/19/Research-and-Ratings/PwC.aspx>, accessed February 20, 2018.

<sup>12</sup> "Esports Revenues For 2016 Adjusted Upward to \$493M," *newzoo*, <https://newzoo.com/insights/articles/esports-revenues-2016-adjusted-upward-493m/>, accessed February 20, 2018.

<sup>13</sup> "FanDuel And DraftKings Are Dominating The Daily Fantasy Sports Market," *Forbes*, <https://www.forbes.com/sites/kevinanderton/2016/11/30/fanduel-and-draftkings-are-dominating-the-daily-fantasy-sports-market-infographic/#234b7427c4f9>, accessed February 20, 2018.

<sup>14</sup> "At the gate and beyond Outlook for the sports market in North America through 2022," *Statista*, <https://www.statista.com/statistics/214960/revenue-of-the-north-american-sports-market/>, accessed January 16, 2019.

<sup>15</sup> "At the gate and beyond Outlook for the sports market in North America through 2022," *Statista*, <https://www.statista.com/statistics/214960/revenue-of-the-north-american-sports-market/>, accessed January 16, 2019.

<sup>16</sup> Based on data collected and amalgamated from Sporting Intelligence ([www.sportingintelligence.com](http://www.sportingintelligence.com)).

<sup>17</sup> "The World's Highest-Paid Athletes 2017: Behind The Numbers," *Forbes*, <https://www.forbes.com/sites/kurtbadenhausen/2017/06/07/the-worlds-highest-paid-athletes-2017-behind-the-numbers/#41aa06a366ad>, accessed February 20, 2018.

<sup>18</sup> "The 100 Most Influential People," *TIME*, <http://time.com/collection/2017-time-100/>, accessed February 20, 2018.

<sup>19</sup> "Top 100 Instagram Users by Followers," *Social Blade*, <https://socialblade.com/instagram/top/100/followers>, accessed February 20, 2018.

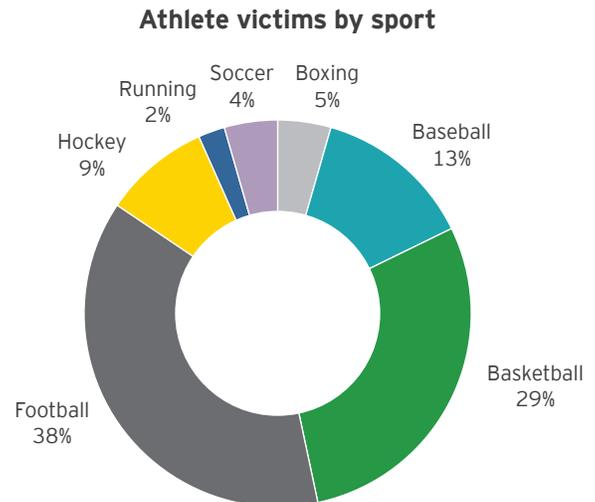


“It’s likely that more instances of fraud have not been identified publicly due to a variety of reasons.”

The victims come from many different sports, including basketball, hockey, baseball, football, boxing, running and soccer. Due in part to the NFL’s sheer roster size, 38% of athletes affected are, or were, professional football players. (There are nearly as many players in the NFL as in the MLB, NBA and NHL combined).<sup>20</sup>

Some schemes allegedly targeted individual athletes, while others targeted a group.<sup>21</sup> Some proceedings also included athletes from multiple sports. Of the \$585 million in potential fraud targeting athletes, \$114 million (25%) related to cases involving athletes from multiple sports.<sup>22</sup>

The impact of any given fraud may extend beyond the immediate short-term monetary loss and can signal an athlete’s financial downfall. In the past decade, athletes from boxing and football cited fraud as a contributing factor in their bankruptcies.<sup>23</sup>



Whatever the public numbers, the private toll on athletes is undoubtedly larger. Our research identified only alleged frauds that became publicly known through criminal or civil proceedings. It’s likely that more instances of fraud have not have been identified publicly due to a variety of reasons, including:

- ▶ Private resolution. Recent research from the Association of Certified Fraud Examiners shows that in almost 41% of cases, victim organizations did not refer their cases to law enforcement, with “fear of bad publicity being the most-cited reason.”<sup>24</sup>
- ▶ Athletes did not want to, or were unable to, pursue claims.
- ▶ Perpetrators successfully concealed their crimes.

### What are common fraud schemes against athletes?

Fraud schemes vary, but there is a common theme: the fraud perpetrator gains the athlete’s trust – either directly or through mutual contacts – and leverages the relationship of trust into the fraudster’s own financial windfall. This malfeasance often goes undetected due to limited oversight and the reality that, when compared with the large, steady cash inflows, improper cash outflows and fraudulent investments may not look that unusual.

EY’s research identified commonalities among the filed fraud cases, including:

- ▶ Individuals posing as financial professionals. Individuals pretended to be financial professionals to dupe athletes out of their money. The imposters improperly used the athletes’ funds for personal expenses such as cars, jewelry, taxes and debts.
- ▶ Unauthorized investments. The athletes’ representatives used their access to make unauthorized and overly risky investments on the athletes’ behalf, while also enriching themselves. Examples of unauthorized investments include taking stakes in various startup companies and real estate ventures in which the representative already had a financial interest. The representative often failed to disclose this conflict of interest.

<sup>20</sup> Sporting Intelligence (Globalsportsalaries.com): 1,687 active players in NFL, compared with 449 in the NBA, 862 in MLB and 707 in the NHL, for a total of 2,018, or about 84%.

<sup>21</sup> Individual example: Tim Duncan, <https://www.mysanantonio.com/news/local/article/Feds-indict-Tim-Duncan-s-former-financial-9212381.php>; multiple examples: Mark Sanchez, Jake Peavy and Roy Oswalt, <https://www.bloomberg.com/news/articles/2016-06-21/ex-jets-sanchez-defrauded-in-investment-scheme-sec-says>.

<sup>22</sup> Figures drawn from internal EY research referenced in footnote 1.

<sup>23</sup> Figures drawn from internal EY research referenced in footnote 1.

<sup>24</sup> “Report to the Nations On Occupational Fraud and Abuse,” ACFE, <https://www.acfe.com/rtrn2016/about/executive-summary.aspx>, accessed February 20, 2018.

- ▶ Unauthorized use of cash by representatives. The athletes' representatives or family members used their access to the athletes' bank accounts or power of attorney to make unauthorized cash withdrawals to enrich themselves. Representatives also used cash for personal expenses rather than stated investments.
- ▶ Misappropriated earnings. Most athletes designate someone to control and manage cash inflows. In these cases, the designees did not properly distribute the athletes' earnings, and instead kept and used them for themselves.
- ▶ Unauthorized use of name, image and likeness. Representatives or family members used the athletes' names and images for endorsement deals and loans (without permission) that enriched themselves.
- ▶ False advice and misleading investors. Representatives misled athletes with false or misleading financial information, such as inaccurate historical investment returns, misclassified risk profiles, fake investment suggestions and recommendations involving Ponzi schemes.
- ▶ Undisclosed conflicts of interest. These trusted individuals make recommendations to athletes based on an undisclosed conflict of interest, such as ventures in which the individual has an investment, or a financial advisor from whom the trusted individual receives a kickback.

### Why is this happening to athletes?

Like other high-profile individuals, there are factors that inherently increase the risk that athletes will be targets of fraud, such as:

- ▶ Shortage of time to manage their own finances. To succeed, professional athletes dedicate the majority of their time to developing their talent. But outside of the sports arena, athletes fill many roles. In many instances, they are the chief executive officer, chief engineering officer and chief marketing officer of their own businesses. Taking on all of these crucial roles leaves little time to manage their own finances. So, like any good boss, athletes may outsource the financial responsibility to others. That need to rely on others increases the risk that some of the athlete's capital will be diverted.
- ▶ Reliance on nonqualified or inexperienced people. Financial literacy is a skill learned through many years of education and experience. A 2010 study by the Securities and Exchange Commission found that US retail investors "lack basic financial literacy" and "lack critical knowledge of ways to avoid investment fraud."<sup>25</sup> And yet, many of us value established relationships more than qualifications when deciding who controls our wealth. For many athletes, this may mean that a friend or family member manages and invests their money.
- ▶ Misplaced trust. Even when athletes supervise their own wealth, fraudsters prey upon the athletes' trust. Many of these frauds are committed by those who have embedded themselves in the athletic community, making this a type of affinity fraud. In some cases, financial advisors, business managers and family members are even given the athlete's power of attorney. The power of attorney grants a person the ability to make a variety of decisions (including financial) on behalf of another person.
- ▶ Qualified and experienced advisors with unchecked access. Even qualified financial advisors have been accused of stealing from their clients. In some cases, these advisors had unsupervised access to an athlete's finances and took advantage of their clients' busy schedules and their lack of financial knowledge.
- ▶ Exploitation by family and friends. The financial windfall from turning professional will make many athletes millionaires virtually overnight.<sup>26</sup> With that instant wealth comes a sense of obligation to provide for family and friends, which often takes the form of risky investments and excessive gifts. That instant wealth can also motivate family and friends to commit outright theft.

<sup>25</sup> "Study Regarding Financial Literacy Among Investors," SEC, <https://www.sec.gov/news/studies/2012/917-financial-literacy-study-part1.pdf>, accessed February 20, 2018.

<sup>26</sup> "What are the NFL, MLB, NBA and others' rookie minimum salaries?," Penn Live, [http://www.pennlive.com/sports/index.ssf/2016/07/nfl\\_mlb\\_nba\\_rookie\\_salary.html](http://www.pennlive.com/sports/index.ssf/2016/07/nfl_mlb_nba_rookie_salary.html), accessed February 20, 2018.

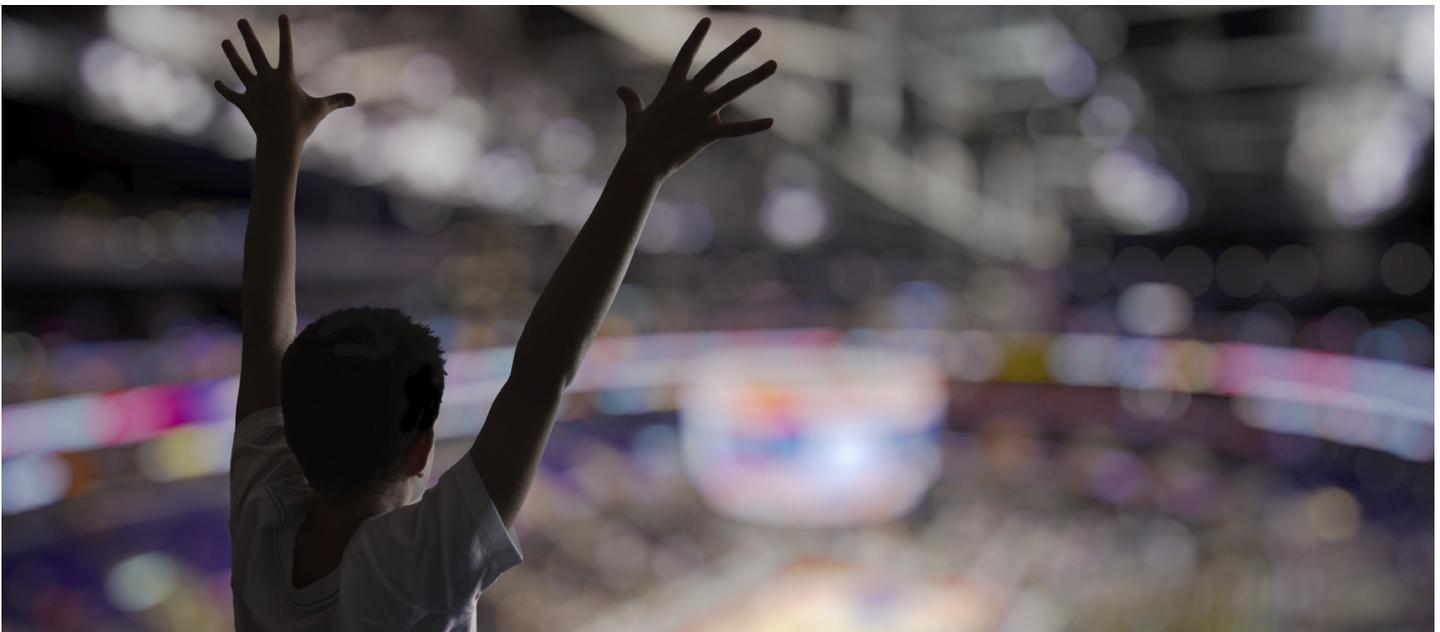


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### What are athletes doing to protect themselves?

As an increasing number of athletes continue to be victimized by financial fraud, many athletes are taking measures to protect themselves. Specifically, we are seeing the following risk-mitigation steps:

- ▶ Establishing a formal relationship with a properly accredited financial advisor. Designations such as certified public accountant and certified financial planner signify that an advisor likely has the baseline education necessary, including required ethics training, to perform the advisor role. Some players' associations have attempted to go a step further, instituting programs to identify qualified financial advisors and mandate that agents only recommend those advisors who have been formally approved.<sup>27</sup>
- ▶ Periodically reviewing financial information. As we've already established, active athletes likely don't have the time consistently to review their own financial information. But even infrequent reviews are proving to be effective; recently, a \$30 million Ponzi-like scheme and unauthorized use of cash by a financial advisor came to light when an athlete discovered deductions from his own account.<sup>28</sup>
- ▶ Requiring regular disclosures and performance updates from representatives and reviewing that data. Athletes who are requiring their representatives to provide regular, detailed updates about their financial performance increase the paper trail, the formality of their arrangement and their personal knowledge of their own investments.
- ▶ Signing a formal contract with any representative. Like any ongoing business relationship, a signed contract detailing the terms, conditions and scope of services establishes the requirements for both parties.
- ▶ Including rights to audit in any formal arrangement. For athletes who use financial managers, including a right to audit in their contract has proven to be a useful tool for a variety of reasons. First, it can enhance the ability to detect and detail any wrongdoing. Second, it potentially can prevent that wrongdoing in the first place by acting as a deterrent. And third, it provides an extra layer of comfort that there is accountability in the business relationship. Audit rights should be part not only of a formal manager relationship, but of every major investment an athlete makes.



<sup>27</sup> "How to keep pro athletes from going broke? Send them to class," *Miami Herald*. <http://www.miamiherald.com/sports/nfl/article101016922.html#storylink=cpy> <http://www.miamiherald.com/sports/nfl/article101016922.html>, accessed February 20, 2018.

<sup>28</sup> "NFLPA Approved Financial Advisor Stole \$30 Million From Mark Sanchez, Jake Peavy, and Roy Oswalt," *Vice Sports*, [https://sports.vice.com/en\\_us/highlight/nflpa-approved-financial-advisor-stole-30-million-from-mark-sanchez-jake-peavy-and-roy-oswalt](https://sports.vice.com/en_us/highlight/nflpa-approved-financial-advisor-stole-30-million-from-mark-sanchez-jake-peavy-and-roy-oswalt), accessed on February 20, 2018.

### **What can athletes do to prevent potential fraud?**

First and foremost, athletes should hire reputable, vetted external parties rather than smaller-sized, inexperienced advisors to manage their finances. These parties should be recommended by objective, third-party sources. Some financial professionals will promote their ability to increase financial returns, but a good financial professional will be adept at both wealth accumulation and wealth preservation.

Before entering into any type of professional relationship, an athlete should consider a host of risk areas because individuals often will make many claims or provide credentials that may not be entirely truthful. A critical step an athlete can take to lower their risk is to conduct due diligence on their financial representatives or potential investments in advance. Due diligence may include:

- ▶ Background investigations
- ▶ Conflict-of-interest checks
- ▶ Analysis of relevant documents
- ▶ Audit or review of financial reports
- ▶ Interviews
- ▶ Reference checks
- ▶ Investment strategy (and history of success)
- ▶ Training and education
- ▶ Reputation among others in the industry and other professionals who have worked with them

In all cases, it is wise to use experienced, reputable, independent third parties to perform these due diligence steps.

### **What can athletes do to detect potential fraud?**

As noted, the known number of athletes affected by financial fraud has continued to increase. For athletes who suspect but have not yet discovered fraud, there are a number of ways that fraud, waste, abuse or negligence potentially can be uncovered, including:

- ▶ Auditing financial records
- ▶ Conducting a formal fraud investigation
- ▶ Calculating and comparing royalty and licensing fees received with amounts required per contracts
- ▶ Assessing if actions of financial representatives comply with their contracts
- ▶ Extracting and analyzing emails and other electronic information for review

### **Reversing the trend is possible**

Sports is a unique business. Unlike other professions, athletes reach their earnings peak more quickly, and while their average career earnings are substantial, the average career length is not. As a result, issues of fraud often come to light once athletes are retired and the steady flow of income has decreased. Given the significant amount of money in sports, the unfortunate reality is that there may be fraud occurring that will continue to be undetected for the foreseeable future and, ultimately, contribute to the steady increase of athlete victims for many years to come. With diligence, regulation, increased monitoring and more responsibility shown by financial professionals, there is hope that these trends can be reversed.

The Ernst & Young LLP Forensics Sports leadership team includes former fraud prosecutors from the United States Department of Justice, former fraud investigators from the United States Securities and Exchange Commission and former special agents from the Federal Bureau of Investigation, as well as leading forensic accountants. Our team collectively has decades of experience investigating all types of fraud and has extensive sports industry knowledge. For more information, please contact us here:



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