



THE OHIO
SOCIETY
OF CPAs

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Youngstown State University

YSU CPE Day

Debbie Foister, CPA, CFE, CFF, CIRA
Hill, Barth & King L.L.C.

White Collar Crime

Session #006

Upcoming Events

Cleveland Spring CPE Conference – May 23, 2014– Course #46375

A whole new CPE season starts with the beginning of spring, and our annual Cleveland Spring CPE Day Conference is a fantastic way to get all the latest news you can use on a variety of topics important to you and your profession. There is so much happening with new regulations, the new health care law and the competitive environment continues to be a strain on all businesses, and with the ability to get information from virtually anywhere, it's hard trying to cut through it all to get to what you need to know. Join us at the Cleveland Spring CPE Day conference and let us help make that easier by providing you with the information you need, from the experts you know, and the industry leaders you trust. Plus it's a great time to network with your peers and satisfy your three-hour ethics requirement. Being close to home with great topics and great speakers this event has it all.

Akron Spring CPE Day– June 27, 2014 – Course #46391

Join OSCPA for one of the most popular CPE events in Northeast Ohio. The 2014 Akron Spring CPE Day conference is coming soon and it's the place to be to get information on just about anything, anytime from a variety of sources. At this conference we're going to help make that process easier by providing you with the information you need on the topics important to you and your industry. This is a great opportunity to learn from the experts and industry leaders you know and trust, plus you can satisfy your three-hour ethics requirement and network with your peers.

· Be sure to visit the Events Catalog at store.ohioscpa.com for more continuing education opportunities.

NOTICE TO READERS:

These course materials have been prepared solely for continuing education purposes. Since the subject matter has not been considered and acted upon by senior technical committees of The Ohio Society of CPAs, it does not represent an official position of the Society

WHITE-COLLAR CRIME

Presented by:

Debbie Foister, CPA, CFE, CFF, CIRA
Hill, Barth & King Valuation Group LLC

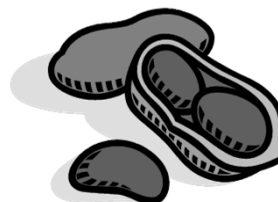
WHAT IS WHITE-COLLAR CRIME?

“ Crime in the upper, white-collar class, which is composed of respectable, or at least respected, business and professional men.”

- Edwin H. Sutherland, *White -Collar Crime* (New York: Dryden Press, 1949)
p.9

“IN A NUT SHELL”

- Lying
- Cheating
- Stealing



<http://www.fbi.gov>

TODAY WE KNOW:

- * Not a Victimless Crime
- * More Sophisticated Schemes
- * Perpetrators are not Gender, Race or Social Class Specific
- * Opportunity and Means are Important Factors

TYPES OF CRIMES

FRAUD

- * Investment
- * Corporate
- * Credit
- * Health Care
- * Mortgage
- * Insurance
- * Tax
- * Bankruptcy

THEFT

- * Identity Theft
- * Embezzlement
- * Piracy/Intellectual Property

INVESTMENT SCHEMES

- * Ponzi Schemes – Bernard Madoff
- * Affinity Fraud
- * Pyramid Schemes
- * Advance Fee
- * Market Manipulation A.K.A. “Pump and Dumps”

INVESTMENT FRAUD



- * Low or no Risk Investment
- * Guaranteed Returns
- * Overly Consistent Returns
- * Complex Strategies
- * Returns Greater than the Market

ATM PONZI SCHEME

- * ATM's in High-Traffic Retail Locations
- * Recoup Investment **Plus** 20-24 Percent Return
- * Fees Charged to the ATM Customer
- * False Monthly Financial Statements
- * Wired Share of Profits in the Beginning
- * 90% of the 4,000 ATMS Did not Exist or Owned by Another Company
- * Excuses- Various Banks and Software Glitches

<http://www.fbi.gov/news/stories>

AFFINITY FRAUD

- * Goal is to Gain Trust... then Money
- * Religious Beliefs
- * Ethnic Identity
- * Bernard Madoff- Jewish Community
- * Shawn Merriman, a.k.a. the “Mormon Madoff”
- * Raising Up
- * Reluctant to Prosecute

(Snyder and Emerson, 2014)

PYRAMID SCHEMES

- * A.K.A. Franchise Fraud or Chain Referral Scheme
- * Distributorship or Franchise to Market a Particular Product
- * Real Profit is Sale of Distributorships
- * Receive Commissions
- * Supply of Investors Exhausted....Pyramid Collapses
- * **Tip:** Be Wary of Investments that Require Recruitment of Subsequent Investors

<http://www.fbi.gov>

ADVANCE FEE FRAUD

- * Victims Advance Money for Fees to Receive Larger Gains
- * Loan, Contract, Investment or Gift
- * Con Artists Targets
- * NJ Con Artist Defrauded Puerto-Rico Based Sisters of the Rosary of Fatima
- * Do your Homework before Giving our Money!

<http://www.fbi.gov>

OPPORTUNITY TOO GOOD TO BE TRUE

- * Know who you are Dealing with (Better Business Bureau, Bank, Attorney, Police)
- * Understand the Agreement- Complex Hire a Competent Attorney
- * Suspicious Business Operations
- * Sign Nondisclosure or Non-Circumvention Agreement

<http://www.fbi.gov>

MARKET MANIPULATION

- * A.K.A “Pump and Dumps”
- * Artificial Buying Pressure for a Targeted Security
- * Trading Volume Increases
- * Security Price is Inflated
- * Perpetrators Sell off Security in the Hype
- * False or Deceptive Sales Practices
- * False or Deceptive Public Information Releases

<http://www.fbi.gov>

CORPORATE FRAUD ACCOUNTING SCHEMES

- * Number 1 Pursued by the F.B.I.
- * Deceive Investors, Auditors and Analysts
- * Falsification of Financial Information
- * False Accounting Entries
- * Fraudulent Trades
- * Illicit Transactions

<http://www.fbi.gov>

\$500 M FRAUD

- * Eric Bloom Misappropriated his Client's Securities
- * Used as Collateral for a Company Loan
- * Purchased High Risk, Illiquid Securities
- * Benefit of Bloom, his Family and other Companies
Controlled by Bloom Family
- * Blamed "Liquidity Crisis" and "Investor Fear and Panic"
- * False and Misleading Account Statements

<http://www.fbi.gov>

COLONIAL BANK AND TAYLOR, BEAN & WHITAKER

- * Washington, D.C.
- * Conspiracy by Senior Executives
- * Several Billion Accounting Fraud
- * Back-dating Loans
- * Creating Fictitious Loans
- * Inflated Loan Asset Values
- * Colonial Bank-6th Largest Bank Failure since FDIC was
Created

<http://www.fbi.gov>

CORPORATE FRAUD SELF-DEALING

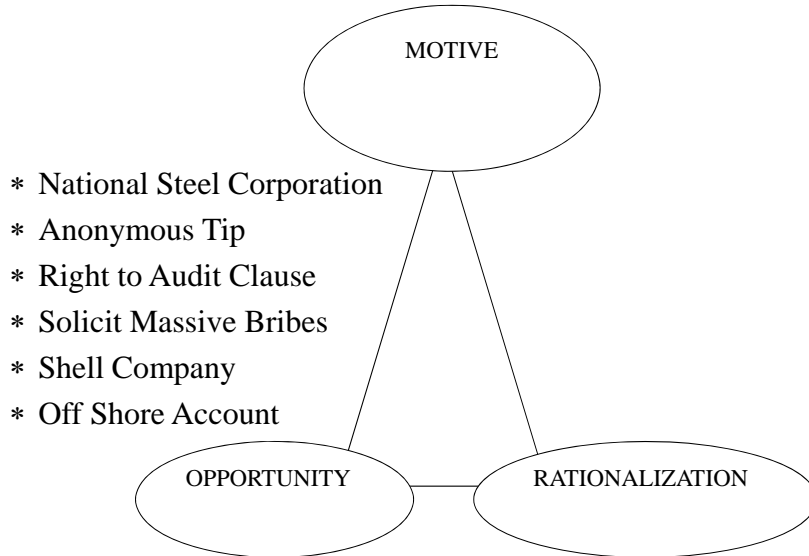
- * Insider Trading
- * Kickbacks
- * Misuse of Corporate Property for Personal Gain
- * Individual Tax Violations

GALLEON GROUP INSIDER CASE

- * Players- Wall Street Analysts, Attorneys, Hedge Fund Analysts and Traders, Company Insiders and Professional Consulting Firms
- * Employed at McKinsey & Company, International Business Machines, Advanced Micro Devices, Goldman Sachs and the Galleon Group

<http://www.fbi.gov>

KICKBACK SCHEMES



NATIONAL STEEL CORPORATION (NSC)

- * Vendor- No Prior Experience in Steel Industry
- * 62% of the Sales was through NSC
- * Vendor's Main Office
- * Other Companies – Film Industry
- * History of Breach of Contract Lawsuits

(Tie, Robert 2010)



KICKBACK SCHEMES



General Red Flags

- * Exorbitant Increases in Vendor Charges
- * Shell Companies Established by Employees or Vendors
- * Extraordinarily Quick Payments to Vendor (Greater than the Terms or Norm)

HEALTH CARE FRAUD SCHEMES

- * Billing for Services not Rendered
- * Upcoding of Services
- * Upcoding of Items
- * Duplicate Claims
- * Unbundling
- * Excessive Services
- * Medically Unnecessary Services
- * Kickbacks

<http://www.fbi.gov>

HEALTH CARE FRAUD CASES

1 of 3

- * American Therapeutic Corporation (Miami)
- * Largest Community Medical Health Center in Florida
- * \$205 million in Fraudulent Claims to Medicare
\$85 million Received
- * Kickbacks to Assisted Living Facilities
- * Unnecessary Group Therapy Programs

CONTINUED

2 of 3

- * Dr. Alphonso Berry- Long Time Detroit Doctor
- * \$13.2 m of Fraudulent Claims to Medicare- 7 years
- * Group and Individual Psychotherapy
- * Co-conspirators Opened Quality Recreation and Rehabilitation also Operated an Adult Foster Care Home
- * Medicare Questions
- * Opened a New Facility- Procure

<http://www.fbi.gov>

CONTINUED

3 of 3

- * Wayne County Therapeutic Inc. -Detroit Area Physical Therapy Clinic
- * \$23 M in Medicare Fraud
- * Third-Party Contractor Files Purchased
- * Contracted Therapist Provided Kickback to Medicare Beneficiaries

<http://www.justice.gov/opa/pr/2010/December/10-crm-144-.html>

MORTGAGE FRAUD SCHEMES

- * Foreclosure Rescue Schemes
- * Loan Modification Schemes
- * Illegal Property Flipping
- * Equity Skimming
- * Silent Second
- * Air Loans

<http://www.fbi.gov>



TWO DISTINCT TYPES:

- * Fraud for Profit
 - * Industry Insiders
 - * Collusion
 - * Bank Officers, Appraisers, Mortgage Brokers, Attorneys, Loan Originators
- * Fraud for Housing
 - * Borrower
 - * Fraudulent Application (Income, Assets or Both)

FORECLOSURE RESCUE SCHEMES

- * Perpetrators Identify Homeowners at Risk of Defaulting
- * Save the Home
- * Transfer the Deed to Perpetrator
- * Sell Property to an Investor or Straw Borrower
- * Fraudulent Appraisal
- * Steals the Proceeds
- * Rent for Year and then Repurchase Home

EQUITY SKIMMING

- * Straw Buyer
- * False Income and False Credit Reports
- * Obtains Mortgage
- * Quit Claim Deed
- * No Payments are Made
- * Rents the Home until Foreclosure

LOAN MODIFICATION SCHEMES

- * Victims about to Lose their Home
- * Renegotiate the Terms of the Loan
- * Demand Large Fees Up Front
- * Negotiate Unfavorable Terms for the Client
- * Don't Negotiate at all
- * Victim Loses their Home

ILLEGAL PROPERTY FLIPPING

- * Property is Purchased
- * Falsely Appraised at Higher Value
- * Quickly Sold
- * Typically Involves One or More of the Following:
 - * Fraudulent Appraisal
 - * Falsified Loan Documentation
 - * Inflated Buyer Income
 - * Kickbacks

SILENT SECOND

- * Buyer does not have Down Payment
- * Borrows from the Seller
- * Non-disclosed Second Mortgage
- * Second Mortgage may not be Recorded



AIR LOANS

- * Nonexistent Property Loan
- * Brokers who Invent Borrowers and Properties
- * Establish Accounts for Payments
- * Maintain Custodial Accounts for Escrows
- * Office with Bank of Telephones
- * Fake Employer, Appraiser, Credit Agency

THE GUARDIAN GROUP LLC

- * Luis Belevan
- * Defrauded at Least 1800 Distressed Homeowners
- * \$1,595 Upfront Fee
- * Bogus Promises Avoid Foreclosure
- * Website
- * \$3 Million in 9 Months

<http://www.fbi.gov>

St. Paul Croatian Federal Credit Union

- * Anthony Raguz, Chief Operating Officer (Cleveland)
- * Pleaded Guilty: Bank Fraud, Money Laundering, and Bank Bribery
- * 1,000+ Fraudulent Loans- \$70 + Million
- * \$1 + Million Bribes, Kickbacks and Gifts
- * Bank Failure Cost \$170 Million- National Credit Union

<http://www.fbi.gov>

MORTGAGE FRAUD TIPS

- * Get Referrals
- * Check the Licenses
- * Beware of Strangers and Unsolicited Contacts
- * Research Comparable Sales in Area and Tax Assessments
- * Research Title Information
- * Understand Terms of Mortgage
- * Never Sign Blank Loan Documents

<http://www.fbi.gov>

MORTGAGE DEBT ELIMINATION SCHEME TIPS

Emails and Web-Based Advertisements

- * Elimination of Mortgage Loans,
Credit Card Debt for an Up-Front
Fee

- * **THERE IS NO EASY WAY
OUT!!!!**

<http://www.fbi.gov>

SUSPICIOUS DOCUMENTS

- * Declaration of Voidance
- * Bond for Discharge of Debt
- * Bill of Exchange
- * Due Bill
- * Redemption Certificate

<http://www.fbi.org>

FORECLOSURE FRAUD SCHEME TIPS



- * Offers to “Save” Homeowners
- * Seek Qualified Credit Counselor or Attorney
- * Do NOT Pay Advanced Fees for Promised Services

<http://www.fbi.gov>

EMBEZZLEMENT

- * Actual Conversion must Occur
- * Entrusted with the Assets
- * Conceal the Act
- * Employees not the only Embezzlers
- * IRS

Bookkeeper = Embezzler

- * Small Family Owned Manufacturing Business
- * 6 Years \$400,000 +
- * Altered Checks and Credit Card Abuse
- * Lack of Separation of Duties
- * Inadequate Management Oversight
- * Complex Accounting System

(Wright, Greg, 2013)

Embezzler Profile

- | | |
|----------------|----------------|
| * Intelligent | Greedy |
| * Inquisitive | Complainer |
| * Egotistical | Defensive |
| * Risk Taker | Irritable |
| * Rule Breaker | Wheeler Dealer |
| * Hard Worker | |

(Wright, Greg, 2013)

BEHAVIORAL



- * Living Beyond Means
- * Big Spender
- * Unusually Close to Vendor or Customer
- * Lied on Resume
- * Legal or Financial Problems
- * Divorce or Family Problems
- * Disgruntled

CONTINUED



- * Addiction
- * Refusal to Take Time Off
- * Keeps Unusual Work Schedule
- * Unwilling to Share Duties
- * Intimidates Subordinates

(Wright, Greg, 2013)

ATTORNEY EMBEZZLES

- * Personal Injury & Wrongful Death Attorney
- * \$1.1 Million + of Client Funds
- * 4 Years
- * Personal and Business Expenses
- * Clients and Third Parties Never Paid
- * U.S. Attorney's Office, March 13, 2014, District of Oregon

CITIGROUP'S V.P.

- * Gary Foster (New York)
- * \$22 Million +
- * Transferred Money from Customers Account to Citigroup's Cash Account
- * Wired Money to Personal Bank Account
- * Utilized Fraudulent Contracts or Deal Numbers
- * Real Estate and Luxury Automobiles

<http://www.fbi.gov>

PNC INVESTMENTS

- * Elderly Customers
- * Investment Banker
- * Transferred Client's Funds to PNC Account
- * Issued Cashier's Checks for Personal Gain

<http://www.fbi.gov>



IDENTITY THEFT

- * Tax Refund Fraud
- * Growing Epidemic
- * I.R.S. the No. 1 Scam in 2013
- * Paperless E-filing Makes It Easier
- * Phony Wages
- * Several Months after Issued Refund
- * Average of 312 Days to Resolve
- * Georgia Woman- Nursing Home Patients
- * Applied Online- \$500,000

FAVORITE MONEY- MAKING ENDEAVOR

- * Relatively Easy
- * Low-Risk
- * Pure Profit
- * Can Fund other Illegal Activities
- * Simple Tax Refund Schemes- One Person
- * Sophisticated Schemes- Ringleaders, Sources, Preparers and Runners

<http://www.fbi.gov>

5 TARGETED GROUPS

- * Deceased
- * Elderly
- * Students Ages 16 to 20
- * Children under the Age of 14
- * Income Level does not Require Taxpayer to File
(Holtfreter, McLeod, Harrington, 2014)

Miami Police Officer

- * 10 Month Scam in 2012
- * Florida's Driver's License Database
- * 700 Middle-Aged Women
- * Pre-Paid Debit Cards
- * \$130,000-\$140,000 Admitted

<http://www.usdoj.gov/usao/fls>

BIOMAT USA

- * Donate Blood Plasma for Compensation
- * January to June 2012
- * 130 Clients
- * Co-Conspirators
- * False W-2 Forms
- * Refund Checks were Mailed to her Address

<http://www.fbi.gov>

BALTIMORE POLICE OFFICER

- * Extortion and Aggravated Identity Theft
- * Armed Security
- * Check Police Data Base – Informants
- * Arrestees Identity
- * Tax Preparer and Heroin Trafficker

<http://www.fbi.gov>

ATM SKIMMERS

- * Hidden Cameras
- * Phony Keypads
- * Record Customers' Account Information
- * Create Bank Cards (Gift Cards)
- * Short Period of Time (Few Hours)
- * \$1 Million +, 2 Bulgarian Brothers
- * Gas Pumps and other P.O.S.

HOW TO AVOID BEING SKIMMED

- * Inspect the Machine for Lose, Crooked, or Damaged Parts, Scratches or Adhesive Tape Residue
- * Enter PIN Block the Keypad with other Hand
- * Use ATM at Inside Location
- * Tourist Areas- Popular Target
- * Card not Returned- Contact the Financial Institution

<http://www.fbi.org>

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