Rebuilding Fraud-Damaged Corporate Reputation Getting Tougher

It takes an average of 4.01 years for a corporation to fully restore its reputation after being damaged by a crisis such as discovery of significant financial malfeasance. That compares with an average expected recovery time of 3.81 years estimated by CEOs responding to a similar survey in 2003.

Important: More than ever, the burden of restoring a corporation's reputation following a major crisis rests with the CEO. That is the consensus, despite increased legal and regulatory oversight responsibility being placed on corporate boards of directors.

Details: When top executives were asked who was responsible for repairing company reputation, they attributed 68% of the responsibility to the CEO and 32% to the board of directors.


IN THE NEWS

Fred Shapiro

An Ex-Con Tells How to Avoid Being Conned

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banks and everything would be back to normal.

**UNEXPECTED GLITCHES**

The money I eventually got back from Brad was less than what I was owed, and not enough to pay back the fraudulent bank loans.

**Result:** Despite feeling intensely guilty and fearing getting caught, I felt forced to commit a second round of fraud. This time, though, I would do it the smart way: I would use the real estate market to bail myself out.

**My scheme:** I set up a phony real estate title insurance agency. I drew up a sales contract on a local shopping center and asked a well-respected appraiser to value it for me, even though the owner had no idea what I was up to.

With a favorable appraisal in hand I represented to three different banks that I was purchasing the shopping center for $1.2 million, coming up with $400,000 of my own money and requesting loans secured by a first mortgage of the balance—$800,000 at

closing, an “employee” of my bogus title agency falsely stated that the seller had closed the day before and that all documents were being held in escrow pending the transfer of funds. My trusting banker friends now had everything they needed to hand over three $800,000 bank loans.

**My plan:** To wait a year or so until the real estate market rose enough so I could sell the properties at a profit, pay back the banks and go back to practicing law.

**THE HOUSE OF CARDS COLLAPSES**

To make a long story short, the real estate market softened and I found myself with properties worth much less than what I’d bought them for, and a mountain of debt with no way to make the monthly payments.

**Result:** Stressed beyond belief and wracked with guilt, I hired a local criminal defense attorney and turned myself in to the authorities.

Because I agreed to cooperate with federal law enforcement agencies in an unrelated investigation, I was able to get a reduced sentence. I ultimately spent a year and a day in Seymour Johnson Federal Prison Camp in North Carolina.

**LESSONS FOR FRAUD FIGHTERS**

Lessons for internal security managers, bank executives, auditors and senior executives...

- **Trust can blind you to criminal activity.** Though some of the fraudulent loan documents I was able to get away with 20 years ago would never make it past current internal banking controls, the trust that my banker friends had in me could still get a financial institution into trouble today.

- **The emphasis on “Know Your Customer/Client” and due diligence should not be limited to new or unfamiliar customers.** To outsmart shrewd scam artists, due diligence must be meticulous and uncompromising, no matter who the borrower, purchaser, audit client, prospective business partner, etc. may be.

- **Knowing how to spot tell-tale signs of potential criminal activity among subordinates is a full-time imperative.** Managers who choose to ignore the red flags of potential internal fraud are inviting employees to steal.

  **Essential:** Train all managers in how to spot elements of the Fraud Triangle in their subordinates. Do employees show signs of stress due to financial problems? Marital issues? Drug, alcohol or gambling problems? These are all common sources of pressure to commit fraud.

  Secondly, do employees have opportunities to steal? Are the proper controls in place for preventing accounts receivable and accounts payable fraud? Are the company’s confidential computer files secure?

  **Key:** This list of questions has no end because there is no end to the number of ways that employees can steal.

  **White-Collar Crime Fighter**

  Fredric Shapiro, former Pennsylvania attorney and accountant and director of the Temple University Accounting & Tax Institute. After his stint at Seymour Federal Prison Camp, Fred went “straight” for several years, marrying for the second time and working as a cabbie, bouncer and delivery truck driver.

  Dissatisfied with his low income, in 2000 he crossed the line again, committing credit card and identity fraud. He spent 16 months in federal prison.

  “Today he confidently describes himself as a ‘changed man,’ devoted husband and father and trying, with a formal training program, to help potential corporate fraudsters from going down the road he traveled—twice. He can be reached at fshapiro427@aol.com.