WHITE-COLLAR CRIME FIGHTER

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YOUR SECRET WEAPON IN THE WAR ON FRAUD

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IN THE NEWS

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.

***White-Collar Crime Fighter* source:** 2004 CEO reputation survey of Fortune 1000 companies by Burson-Marsteller, prominent public relations and corporate communications consultants, www.bm.com. The survey is a follow-up to *CEO Capital,* a book by Dr. Leslie Gaines-Ross, Burson-Marsteller's chief knowledge & research officer and reputation expert.

IN THIS ISSUE

Fred Shapiro

An Ex-Con Tells How to Avoid Being Conned

My former life as a fraudster is living proof that the willingness to trust others, while a powerful human instinct, is also a treacherous Achilles heel when it comes to money.

A GOOD GUY DOING BAD THINGS

I was basically a normal guy who loved his family and wanted to have a good career. I was an attorney and a tax and accounting expert with my own small practice. What more could a 30-something man want?

More astonishingly, how could this normal guy—the son of a policeman—end up going to jail?

Answer: People trusted me…and I got myself into a bad situation where abusing that trust seemed like the only way out.

Details: It all started with one honest mistake in judgment. In my law practice, several of my small business clients hired me to set up pension plans for their principals and entrusted the money for financing those plans to me. I was supposed to invest the money to get the best possible return.

Soon I had about $1 million in pension fund cash under my management.

One day in 1985 I happened to meet a "financial planner" named Brad who promised high returns on real estate investments. Brad convinced me that he was a financial and investment whiz. I figured that if I put some of my clients' pension money into Brad's real estate deals, I could impress my clients and that would help me attract new ones.

Problem: Brad was a crook. He was running a high-stakes Ponzi scheme and I got sucked into it. At first, I would transfer $25,000 to $50,000 at a time from my clients' pension accounts to Brad and he would return $10,000 to $15,000 to me in a matter of months. That induced me to send him more pension money. That continued until he had $500,000 of my clients' pension savings, which is when the returns stopped coming.

I sued Brad, but before the legal process was completed, my clients began asking for portions of their pension money back so they could diversify their investments.

CROSSING THE CRIME LINE

That's when I made my second mistake. I applied for unsecured personal loans with local banks by submitting fraudulent loan applications containing grossly overstated income and assets.

Why would I make this self-destructive leap from being a law-abiding citizen to a criminal? *In no particular order, my main reasons for crossing the "crime line" were…*

•**Desperation.** I was under extreme financial pressure to return money to the pension fund clients, but was short the money due to my poor judgment about Brad.

•**I could.** I applied for loans with banks I had done business with for many years. I had personal and business accounts with these banks, and I was friendly with many of their senior executives.

Result: I knew that the banks would never question the information I submitted on my loan applications.

•**It was a stopgap measure.** As soon as the court ordered Brad to pay back the money he stole from me. I'd pay back the 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—$800,000At

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clossjing, 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 checks to my title agency.

With that $2.4 million, I made down payments on residential and commercial properties totaling $8 million in value.

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* source:**
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 18 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.

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Mission Statement

White-Collar Crime Fighter provides information of maximum practical value to organizations and individuals involved in all facets of investigating, detecting and prosecuting economic crime.

This community includes law enforcement officers…regulatory officials…corporate security professionals…business owners and managers…private investigators…and many more.

The editors of *White-Collar Crime Fighter* strive to gather and compile the most useful and timely information on economic crime issues.

Comments, suggestions and questions are welcome. Please fax us at 203-431-6054, or E-mail us at editor@wccfighter.com. Visit us on the Internet at www.wccfighter.com.