

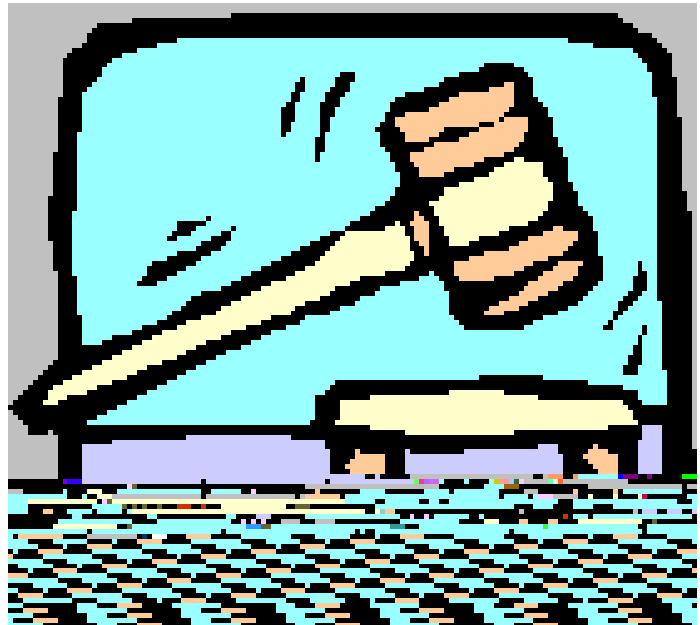


GARY ZEUNE & ASSOCIATES

Training, Writing and Consulting in:
Fraud and Audit Failures
Leadership Skills and Strategies
Productivity Performance Measures

10356 Wellington Blvd, Suite D
Powell, OH 43065
Phone 614-761-8911
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www.TheProsAndTheCons.com

Small Business Frauds



**Updated for SAS
102, 103, 104-111**



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Ex-con: Cunningham Faces Rough Road In Prison - By William Finn Bennett

Walt Pavlo USA TODAY Ethics training -

Gary Zeune on Fraudsters Speaking Out on Fraud The Corporate Counsel - Podcast

OU alumnus examines corporate crime, criminals - By Ashley Ferguson

Ex-cons tout ethics through corporate speakers bureau - By Sarah Anderson

Man's Lifestyle Sold Investors - By Jim Woods

"The Pros of Cons" - By Michael Goldstein

Legal Audits: Does Your Borrower Need A Checkup? - Schottenstein, Zox & Dunn.

An Ex-Con Tells How to Avoid Being Conned. - By Fred Shapiro, in White-Collar Crime Fighter. December, 2004.

Does your compensation system encourage illegal activity? - By Gary D. Zeune, CPA, Published in White Color Crime Fighter in November 2004

Speaker explains how corporate con men get away with it - By Jim Phillips [Athens NEWS Senior Writer] in The Athens News in October 2004

How to Foster Fraud : Forget Ethics - By Gary D. Zeune in White Color Crime Fighter in August 2004

Your Auditors Can Stop Fraud , If they know what to look for - By Stephen Pedneault published in White Color Crime Fighter in August 2004

After Serving Time, Executives Now Serve Up Advice - by CHRISTOPHER S. STEWART in The New York Times

Local CPA, ex-cons attempt to spread word that crime doesn't pay - by SEAN CASEY [Daily Reporter Staff Writer] in Central Ohio Source " The Daily Reporter"

The costs of not securing personally identifiable Data - By Benjamin Wright "The Information Systems Audit and Control Assn." Site : www.isaca.org

Ex-Cons find peace and paycheck on the Burgeoning lecture circuit - By Joshua Harris Prager published in Wall Street Journal May 25th, 2004

Felons become educators for Business - By Mitch Moxley [Financial Post] Published in National Post July 17, 2004

A new regard for ethics on the job - By MEREDITH COHN [SUN STAFF] Originally Published JULY 9, 2004

The pros of preventing cons - *White-collar criminals help companies avoid fraud in their midst* By Chiree McCain, For Business First - June 25, 2004

Are You Teaching Your Employees to Steal? - By Founder Gary D. Zeune, CPA in Strategic Finance

When it's one of your own a first-person account of Fraud Inside A Bank - by ex-con Dave London in RMA Journal

FRAUD HAPPENS : How an honest employee crossed the line - by Teri Lyn Norwood Published in White - Collar Crime Fighter Magazine , November 2003

Internal theft can destroy years of small business owner's work - by Jane Applegate

Fraud and Theft Start Small - by Founder Gary Zeune in NJ CPA Society Journal

How to Predict When People Will Embezzle - by Founder Gary Zeune in White Collar Crime Fighter

Hubbell details life of fraud - September, 2000 in San Antonio Express

Speaking with Conviction - from Report on Fraud

Corporate crooks hit lecture circuit - from Denver Post

Ex-Con Tells How Auditors Failed to Help Clients Guard Against Fraud - by Mark Morze in White Collar Crime Fighter

Preventing Your Firm's "Enron" - by Founder Gary Zeune in Ohio CPA Journal

SAS 99 17 Ways to Protect Yourself From Malpractice - by Founder Gary Zeune in 7 CPA journals

Regulation SAS 99 Aimed at Curbing Company Fraud - from Bizjournals , March 2004

Business First Auditors' Alert: How NOT to Get Sued Under Fraud Auditing Standards - by Founder Gary Zeune in White Collar Crime Fighter

SAS 99 Friend or Foe - by Founder Gary Zeune in two publications

(SAS 99 RMA) Look Out! New fraud auditing standard holds worrisome implications for financial statement reliability : interview with Gary Zeune in RMA Journal (for banking industry)

Like an article.....Email Gary Zeune at gzfraud@bigfoot.com for reprint permission.



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TRAINING AND CONSULTING

Using 35 years of experience in auditing, corporate finance, and investment banking, Gary D. Zeune, CPA, provides CPAs, attorneys and executives with hands-on experience in fraud and corporate strategy performance improvement. Mr. Zeune instructs courses for:

- ❑ FBI National Training Academy
- ❑ Office of the U.S. Attorney
- ❑ The SEC Institute
- ❑ National Association of Securities Dealers
- ❑ North American Securities Administrators Association
- ❑ American Society for Industrial Security
- ❑ Over 35 state CPA societies and bar associations
- ❑ American Institute of CPAs
- ❑ American Management Association
- ❑ Institute of Management Accountants
- ❑ Entrepreneurship Institute
- ❑ Treasury Management Association
- ❑ Private classes for numerous companies and accounting firms.

Mr. Zeune has instructed Strategy Formulation and Implementation in the Executive MBA Program and Accounting and Honors Finance at The Ohio State University. He is also a member of the Education Executive Council and is past chairman of the Education Marketing and Public Relations Committees of The Ohio Society of CPAs. His other memberships include: the American Institute of CPAs, and the Regulation of Public Offerings Committee of the Ohio Division of Securities.

Prior to forming his consulting practice in 1986, Mr. Zeune was an Assistant Vice President of Corporate Finance at The Ohio Company, a Columbus, Ohio investment banking firm. He also spent more than five years in Treasury and Finance at Wendy's International, where he was responsible for mergers and acquisitions, financial and SEC reporting, and corporate finance. He was on the audit staff of Ernst & Ernst from 1973 to 1977; and taught accounting at Ohio University from 1970 to 1973, where he received his bachelors in mathematics and masters in accounting, with honors.

ARTICLES AND BOOKS

Mr. Zeune is also widely published. He has published more than 40 professional articles and is the author of *The CEO's Complete Guide to Committing Fraud* and *Outside the Box Performance*. He has been a member of the Editorial Advisory Boards of the *Journal of Working Capital Management* and *The Ohio CPA Journal*.

For Deloitte & Touche, he authored *Financing Business Growth* and has completed the first draft of *The Complete Guide to Buying or Selling a Closely Held Business*, two books in the firm's Entrepreneurial Series. He has authored chapters for two books published by Warren Gorham Lamont, the world's largest financial publisher: *Accessing the Capital Markets* and *Options for Raising Capital*.

WHITE COLLAR CRIMINALS

Mr. Zeune has the ONLY speaker's bureau in the country specializing in white-collar criminals — The Pros & The Cons. Mr. Zeune's speakers tell their stories of how and they committed their crimes. Their frauds range from \$18,000 to \$350 million. Speakers include CPAs, attorneys, and business people. The frauds include:

- ❑ Mark Morze created 10,000 phony documents to steal \$100 million in the infamous ZZZZ Best Carpet Cleaning fraud (86% of the revenue was fake and no one found it)
- ❑ Fred Shapiro defrauded nearly every major financial institution in the City of Philadelphia to the tune of \$8.6M. He is a former attorney, accountant, educator and inmate. Fred worked undercover with the U.S. attorney's office and the FBI in a drug and money laundering operation in an effort to minimize his sentence.
- ❑ Nick Wallace committed a \$350 million fraud as the President of ESM Government Securities resulting in the collapse of the Ohio Saving & Loan Guarantee Fund, and the bankruptcy of 69 Ohio S&Ls
- ❑ Dunlap Cannon was the largest real estate closing attorney in Memphis. He went to prison for 32 months for stealing \$5 million from his clients.
- ❑ Suffering from medical expenses and family deaths, bookkeeper Teri Lynn Norwood stole \$18,000, promising to pay it back. She ran out of time.

100% No-Risk Guarantee

Mr. Zeune's executive education training is consistently rated at least a 4.7 on a 5-point scale. If you are not satisfied for any reason, if you don't learn at least 10 new things you can use the following day, there are no fees or expenses. PERIOD.



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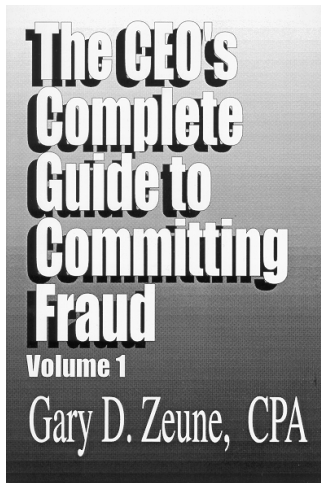
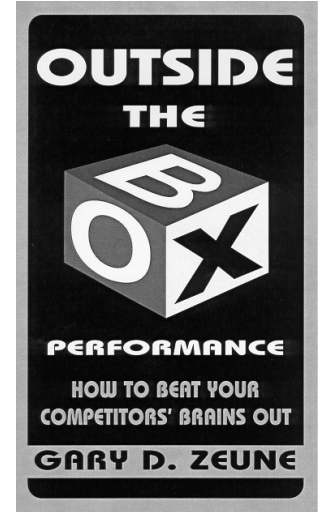
ACTION STEPS FROM GARY'S CLASS

Action Item

Thanks for attending. Don't hesitate to call or email if you have questions. . . .gdz

Want More Info? Order the Book!

Outside the Box Performance: How to Beat Your Competitors' Brains Out is packed with the techniques small and mid-size world-class companies use to become and stay competitive, and make a ton of money. Learn the secrets to unlock the multitude of new techniques which "drive" your profitability. This book compliments the class and provides new ideas to incorporate in your business. For example, do you know what the basis of competition will be in the next 10 years? It's around you ALL the time. You expect it everyday as a customer. Or, how to beat your competitors by asking your customers two simple questions? If not, sit back and learn how to "beat your competitors' brains out!"



Don't you want to know how Barry Minkow and Mark Morze stole \$100 million from investors in the ZZZZ Best Carpet Cleaning fraud, right under the noses of auditors, underwriters and lawyers? The first chapter of 100 pages in *The CEO's Complete Guide to Committing Fraud* tells you. It also has 8 chapters on other frauds: computer, real estate, fake financial statements, public company frauds, and a chapter by an auditor who became the target of a fraud investigation, just 4 weeks after becoming the engagement partner.

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 _____ *Outside the Box Performance* (200 pages)

_____ Number of books ordered

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2 - 5 @ \$15.95 each

6+ @ \$12.95 each

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Total _____

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 Office 614-761-8911
 Fax 801-751-6283
 Email gzfraud@bigfoot.com
 Web www.bigfoot.com/~gzfraud

Name _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone _____ Fax _____

Email _____

Address is: Firm Home

Small Business Frauds

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"Just wanted to let you know that I appreciate being on your distribution list. I find that there are many items that you refer to me that are helpful."

...Mike McGlynn



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Agenda

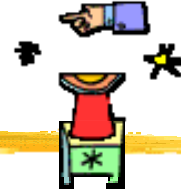
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Dilbert on Fraud



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SAS 102



- SAS 102 Defining Professional Requirements In Statements On Auditing Standards
- **MUST** = *Unconditional requirements* – The auditor or practitioner is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies.
- **SHOULD** = *Presumptively mandatory requirements* – The auditor or practitioner is also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances the auditor or practitioner may depart from a presumptively mandatory requirement provided he or she documents the justification for departure and how alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement.
- Effective upon issuance December 2005

Fraud Lesson _____

SAS 103 Audit Documentation



- Issued Dec 2005
- Effective for periods **ending** on or after Dec 15, 2006
- Supersedes SAS 96
- Prepare audit documentation in sufficient details to provide an experienced auditor with NO previous connection to the audit a clear understanding of the work performed, the evidence obtained and its source, and the conclusions reached
- Guidance on matter to document and document retention



SAS 103 Audit Documentation



- Oral explanations on their own do NOT represent sufficient support for the work the auditor performed or conclusions reached
 - May be used to clarify or explain documentaiton
- Document audit evidence that is contradictory or inconsistent with the final conclusions and how the auditor addressed the contradiction or inconsistency



SAS 103 Audit Documentation



- Assemble the final audit engagement file within 60 (calendar) days following the report release date
- After 60 days
 - No deletion or discard of existing documentation
 - Appropriately document subsequent additions
- Minimum file retention of five years from report release date



Risk Assessment Standards SAS 104 - 111

104	Amendment to SAS 1, Due Professional Care in the Performance of Work
105	Amendment to SAS 95, GAAS
106	Audit Evidence
107	Audit Risk and Materiality in Conducting an Audit
108	Planning and Supervision
109	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
110	Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
111	Amendment to SAS 39, Audit Sampling



Risk Assessment Standards Objectives

- Effective for periods **beginning** Dec. 15, 2006
- More in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate them
- More rigorous assessment of the risks of material misstatement of the financial statements
- Improved linkage between the assessed risks and the nature, timing, and extent of audit procedures performed in response to those risks


Do You Understand Your Client's Business Under SAS 109?

- Do you know what business your client is in?
Yes No
- What business is your favorite client in _____?
- What are the 3 major reasons your client's customers do business with your client instead of a competitor?
 1. _____
 2. _____
 3. _____

The BIG (Xerox) Picture




- What business is Xerox in _____
- 1970 The _____ Company is _____
- 1995 The _____ Company is _____
- Impact of the internet _____
- What business is Xerox in



False Sign-Off

- WHY COMMIT _____
- WHAT TO SIGN OFF _____
- PAY AND PROMOTION _____
- WHY NOT DETECTED _____
- WHY _____
- HOW TO MINIMIZE

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False Sign-Off Survey Results

Sample slice	%
What % do you THINK commit false sign off	
If HAVE detected false sign-off	
If HAVE NOT detected false sign-off	
What happened to the person	
Personally spoke to person	
Person was terminated	

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Top Complaints

Top 5

1. Auto sales
2. Household goods
3. Home improvements
4. Auto repair
5. Credit/lending

Next 6

6. Debt collection
7. Utilities
8. Internet
9. Landlord/tenant
10. Mail order
11. Telemarketing

Auto Dealer Lawsuits About

- Spot financing
- Extended warranties
- Theft protection
- Packing payments
 - How much can you afford a month
 - Add extended warranties or options

Gunderson Chevrolet

- 7 senior managers convicted of fraud
- Theft etch Price \$6,000 — Cost \$_____
- Switched contracts from purchase to lease
- Settlement
 - \$900,000 in a monetary settlement
 - Restitution of \$1 million+
 - Close sales department for six days
 - Dealer license on probationary four years
 - \$200,000 for investigative and legal costs

Sticker Shock

Prices quoted by one
Florida dealership to a
Toyota Celica owner.
Wall Street Journal, June 20, 2002

MSRP \$21,970
Options 3,000

Care program: \$329

LoJack: \$699

Theft etch: \$395

Extended warranty: \$699

Environmental
protection: \$499



Gap loss: \$499

2002 Toyota Celica GTS

Odometer Fraud

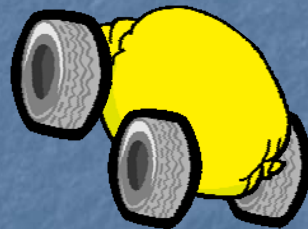
- 450,000 cases per year
- 3½% of used cars
- \$2,336 per car
- \$1 billion total
- Odometer fraud is a felony
- FTC: mostly wholesalers



Car Lemons

- 100,000 lemons bought back
- 95% with safety defects
- Vast majority 'repaired'
- Resold at auction

Consumers for Auto Reliability and Safety



Phony IRS/Bank Forms

- W-9095
- W-8BEN
- W-8888
- Inspector General for Tax Administration
800-366-4484

Phony IRS W-9095 form

- Fake W-9095 "Application Form for Certificate Status/Ownership for Withholding Tax"
http://www.bankrate.com/brm/frames/hyperlink.asp?link_address=http://www.occ.treas.gov/ftp/alert/2002-3b.pdf
- Real W-9 "Request for Taxpayer Identification Number and Withholding Tax"
<http://www.irs.gov/pub/irs-pdf/fw9.pdf>
- Letters to return within 7 or 10 days to avoid withholding 31% of all interest paid
http://www.bankrate.com/brm/frames/hyperlink.asp?link_address=http://www.occ.treas.gov/ftp/alert/2002-3a.pdf and
<http://www.occ.treas.gov/ftp/alert/2002-6a.pdf>

See the letters and forms

- List of letters and forms
<http://www.occ.treas.gov/alertst02.htm>
Scroll down to 5/07/2002
Identity Theft: Fictitious Bank Correspondence and Fraud Reporting Forms
- Phony questionnaire at
<http://www.occ.treas.gov/ftp/alert/2002-6b.pdf>
- Phony IRS Form W-8BEN: Certificate of Foreign State of Beneficial Owner for United States Tax Withholding
<http://www.unclefed.com/IRS-Forms/2001/fw8ben.pdf>

Credit Bureaus

- Equifax Credit Information Services, Consumer Fraud Division (800-525-6285)
- Experian (888-397-3742)
- Trans Union Fraud Victim Assistance Department (800-680-7289)

Dumb Crooks

Harvey, III., Baptist minister Rev. Roland Gray was sentenced to 4½ years in prison for faking at least 14 auto accidents to defraud insurance companies of more than \$450,000; "I consider myself a man of God," Gray told the judge, "(but) I got a little confused."

Chicago Tribune, 6-2-02

Least Competent Criminals

- Two women were arrested in February and two men were being sought by police in a failed counterfeit-check scheme in Hickory, N.C.; they were busted because, despite using elaborate computer software to publish bogus checks, none of the four noticed that they had spelled the payer Broyhill Furniture's name as "Boryhill Furmiture." Excite-Associated Press, 2-12-03

Desperate People Do Desperate Things

- Two Immigration and Naturalization Service supervisors in Laguna Niguel, Calif., were indicted for allegedly ordering subordinates to shred their office's 90,000-document backlog (and to continue to shred incoming paperwork so that the office kept current). New York Times, 1-31-03

Desperate People Do Desperate Things

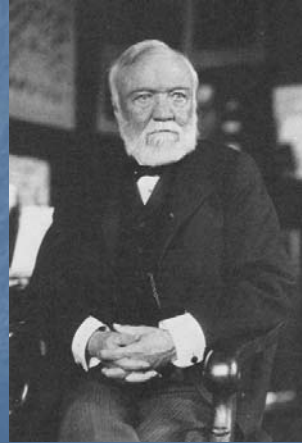
A kindergarten owner sickened 70 children by mixing rat poison into salt at a rival school's kitchen. Huang Hu, 29, was executed Friday in southern China, the official Xinhua News Agency said.



Hu owned a failing kindergarten in nearby Wuchuang and, blaming competition from the nearby school, crept into its kitchen Nov. 24 and put poison in salt that was used to make corn porridge. Seventy children and two teachers were hospitalized, but all were treated and released.

Andrew Carnegie

- Cassie Chadwick bilked banks out of \$1+ million (real name Elizabeth Bigley)
- Illegitimate daughter of Andrew Carnegie
- 1897 7-year con
- Turn-of-the century sense of propriety
- Persistent banker caught her
- Counterfeit bonds
- Fearful depositors
- Carnegie's secretary said, "He is unwilling that anyone who could ill afford the loss should suffer by the fraudulent use of his name."
- 10 years in prison



Prime Bank Note Scam

- Three companies:
 - U.S. Reservation Bank & Trust, Scottsdale, AZ
 - Global-Link Capital Markets Inc. Houston
 - Higher Investments Technologies Inc. Mundelein, IL
- Arizona and Texas → \$78 million
 - Returns of 20+%
 - \$4 million for diverted
 - Seized \$30+ million
- Illinois operation → \$10+ million
 - 90% → for expenses
- Word of mouth

Prime Bank Note Scam

- USRBT combined “Leveraged Profit Sharing Agreement” with CD from USRBT
- Safekeeping but leveraged in “trading”
- Returns greater of 20% of profits or interest earned

Prime Bank Note Terms

- Treasury Bills
- Bonds
- Certificates of Deposits
- Letters of Credit
- Bills of Exchange

- Why use these terms? _____

Red Flags of PBN Scams

1. Highly profitable
2. Totally risk free
3. Readily available funding
4. Quick turn-around
5. No up-front fee required
6. No repayment needed
7. Bank to bank transaction
8. Sanctioned by banks, the U.S. Federal Reserve, International Chamber of Commerce (ICC), the International Monetary Fund (IMF) and the United Nations
9. Extremely secretive

Prime Bank Notes Structure

1. Victims
 - Investors
 - People needing a _____
2. Impressive documentation
3. Business loan at low interest rate
4. Supply large % of the money
5. Non-disclosure agreement
6. Local persons act as agents

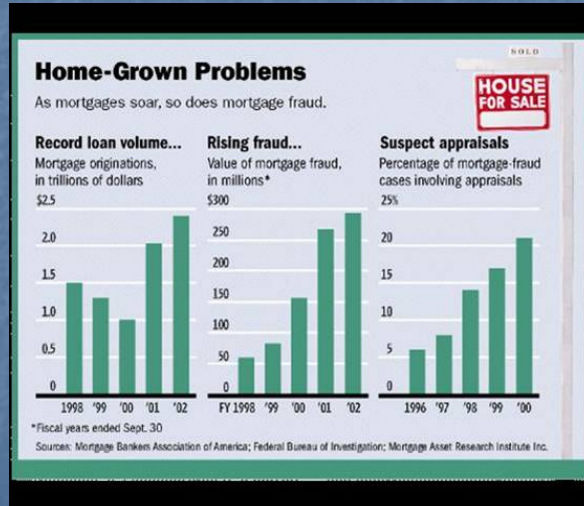
Prime Bank Notes Resources

- SEC www.sec.gov/divisions/enforce/primebank.shtml
- Explanatory letter
<ftp://ftp.publicdebt.treas.gov/ccprime1.pdf>

Predatory Lending

- Hot housing market → houses can't afford
- Tempting to cheat
 - Make hay while sun shines
 - Flat fee and lots of work
- S&L crisis → state licensing and education
- Title XI Financial Institutions Reform, Recovery and Enforcement Act of 1989

Mortgage Loan Fraud



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Then vs. Now

Then

- Banks
- Long-term

Now

- Brokers
- Sell into market

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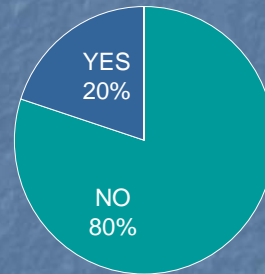
40

Appraisers Pressured

“Please let me know first if we can get this value before charging customer. Do not do appraisal if less.”

Fax to P.E. Turner, Richmond, VA
appraiser for 30 years

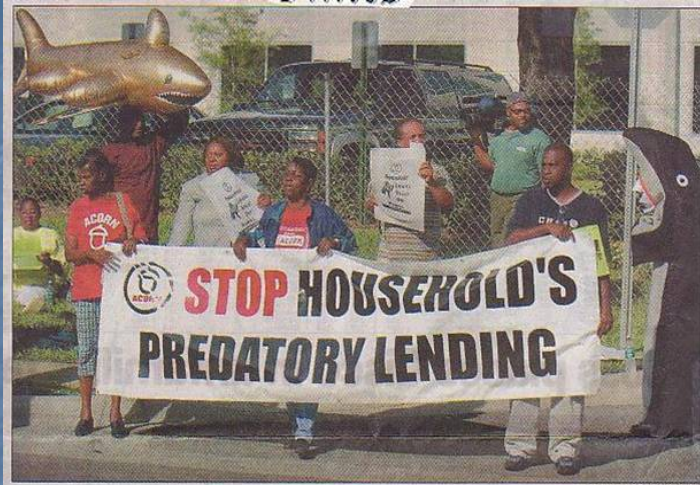
Appraisers Petition
<http://appraiserspetition.com>



Appraisal Institute
(312) 335-4100
www.appraisalinstitute.org

Big Predatory Lenders

Who	Fine	Why
Citigroup	\$215 million	Past abuses at Associates First Capital
Household International	\$484 million	Hidden and unnecessary costs
First Alliance Mortgage	\$60 million	Misleading sales and lending practices



Times photo—STEFANIE BOYAR

Members of the consumer group ACORN, or Association of Community Organizations for Reform Now, protest Household International's lending practices at the company's annual shareholders meeting at its Brandon facility Tuesday.

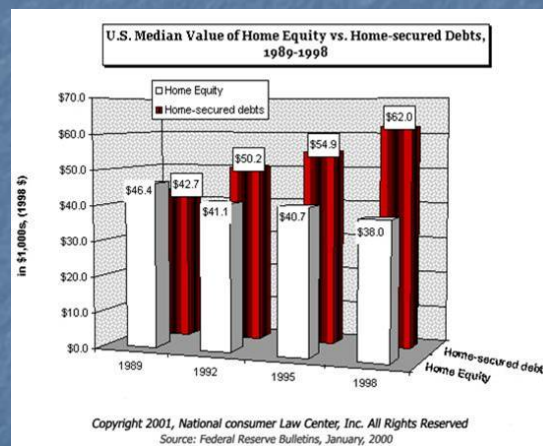
Florida newest turf in lending hostilities

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43

Home Value vs. Home Debt



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Small Business Frauds

44

Legislation



Richard C. Shelby
Chairman

Have asked the GAO to find out if regulators are overseeing the industry.



Paul S. Sarbanes
Ranking Member

U.S. SENATE COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
100 SENATORS FROM 50 STATES, TERRITORIES, DISTRICT OF COLUMBIA
WASHINGTON, D.C. 20540



Introduced a bill to prohibit brokers from:
1. Coercing or intimidating appraisers
2. Tying payment to the property value

Mortgage Fraud Headlines

1. Minnesota title company owner pleads guilty to fraud
2. Five Arrested in NY loan scheme, HUD expects 400 foreclosures
3. Tennessee title company hires convicted embezzler
4. As bankruptcy protection filings rise, Congress looks for ways to stem the tide
5. Two couples found guilty in \$21 million swindle to resell false loans to investors
6. Two found guilty in Fort Lauderdale mortgage frauds scheme
7. Potomac Falls, Va. man charged in land flip scheme

Crew Mortgage

Scott S. McCann
Owner

Anthony Goldberg
Roger Rivera
Loan officers

\$100,000 fleecing

License
Civil suits
Criminal suits

10 – 15 minute closings

Sign blank documents



Bonnie Vaught
\$5,466 false debts

Jay Scott Zimmerman
\$26,000
Divorce and pay bills
\$10,000 settlement

Kelly L. Sellers
Honda worker
\$15,000
Real debts not paid

Sandra Daft
Columbus Quality Food
\$13,000
Threats

10 Warning Signs of Predatory Lending

1. Includes false information
2. Leave signature lines or any other important line-item of any form blank?
3. Did the lender or broker alter any information?
4. Are any of the following disclosures missing?
 - Good Faith Estimate
 - Special Information Booklet
 - Truth in Lending
 - HUD-1 Settlement Statement



10 Warning Signs of Predatory Lending

5. "Daily interest" if payments are late
6. Loan amount higher than the home value
7. Unexpected costs at settlement
8. After settlement, monthly payments higher than you were told
9. Another loan required to pay off a balloon loan
10. Credit insurance



www.mbaa.org

Property Flipping



Appraiser

Selling a property several times in a short period.



Fraud
Kickbacks
Falsified documents
Bogus down payments



Title Agent



Mortgage Broker



Real Estate Agent /
Investment counselor

Typical Office Supplies Scammed



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Small Business Frauds

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Office Supply Scams

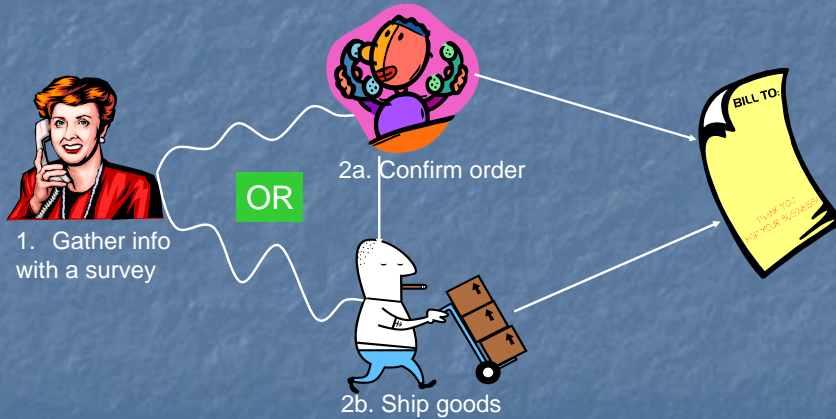
- Project BOSS (Banish Office Supply Scams)
<http://www.ftc.gov/bcp/online/edcams/supplies>
- Poor quality and very expensive
- Toner phoner
- Paper pirates

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Committing the Scam

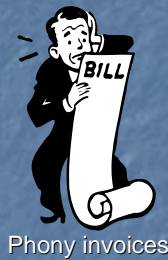


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3 Types of Office Supply Scams



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After the Invoice Arrives

- Get invoice 1 or 2 weeks after the goods
- Collecting their money
- The brush-off
 - Bullying
 - Negotiating
 - Charging for returns

Protecting Yourself from Office Supply Scams

1. If you didn't order _____
2. Review your phone bill
3. Assigned dedicated staff
4. "I'm not authorized to order, you'll have to talk to _____."
5. Buy from _____

FTC's Telemarketing Sales Rule

MUST tell you:

- It's a sales call and who's calling, before _____
- Any restrictions on getting or using
- Final or non-refundable

- 888-734-3247 www.sba.gov/ombudsman

Operation "Misprint"

- FTC sued
 - National Supply & Distribution Center
 - Data Distribution Service
- Deceptively sold toner
- Scott Earl prohibited from
 - Telemarketing or assisting others
 - Deceptive practices
 - Selling customer lists
 - \$2 million "avalanche judgment"

Investment Scams



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Liberte Capital

- James Capwell, _____
- \$105 million
- "I feel that if I don't accept this deal everything I'm faced with could be a lot worse."
- 160 counts
- Sentenced to 10 to 12 years
- \$10 million penalty + forfeit 3 homes



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Liberte Capital

- Liberte Capital's escrow agency
- Viatical settlement company
- Fraudulent insurance policies
 - Cleansheeting
 - Imposter Fraud
 - 32 viators obtained 200 policies



J. Richard Jamieson
Founder

Advance Finance Inc.

- Gary Eisenberg \$21 million
- 200 relatives, friends and acquaintances
- Friend Lindsey Berkson lost \$629,000
- Sentence
 - 5 years prison
 - \$12.7 million
 - \$208,000
 - \$1.6 million
- Factor manufacturers receivables
- Risk free returns of 9% to 18%



- Hartley T. Bernstein
- Bernstein & Wasserman
- Penny-stock clients
 - Blinder Robinson
 - First Jersey Securities
 - Stratton Oakmont
 - Biltmore Securities
 - Sterling Foster



- Shoe designer Steve Madden
- Rooney Pace's Randolph Pace
- StockPatrol July 1999
- Columbia and NYU Law
- ". . . [I] thought of myself as an ethical person who just happened to represent a bunch of people who were scoundrels. My business was so completely dependent on this group of clients — I was blinded by that."





- Wellness Universe
- Ives Health Company
- Vector Holdings Corporation
- "The Government is familiar with StockPatrol.com and believes that it provides a real public service in exposing potential risks, including possible fraudulent schemes, related to a number of public companies." US Attorney
- Cases against 34 people

Lehman Brothers

Victims

- Charles Ruffing \$6 million (bizman)
- Carl Fazzio \$18 million (Fazzio's)
- Sam Glazer (Mr. Coffee)
- George Forbes (NAACP Pres)
- Alan and Judy Yale \$12 million (Pam)
- Andrew Rayburn \$120 million
- 50 clients



Frank Gruttadauria

Lehman Brothers

- \$275+ million 1987 – 2002
- Arrested with \$50,000
- Reimbursement \$20 million
- 7 years in Morgantown, WV
- Sold jet
- Frozen \$2+ million in accounts
- NYSE and NASD new rules



Frank Gruttadauria

Fake Insurance — Why

- Sky-rocketing premiums and bad economy
 - Health up 13%
 - Worker's comp up 21%
 - Medical malpractice up 65%
- Not illegal or just a misdemeanor
- Hard to prosecute
- Self-employed and small businesses

Examples of Fake Insurance

- Employers Mutual
- American Benefit Plans
- TRG
- Vanguard Asst Group
- SAI Med
- Ameri-Med

- Texas → 3 cases in 2000, 250 today

Employers Mutual of Nevada

- Profile
 - Collected \$14 million
 - 22,000 employees
 - 37 states
 - \$3 million paid
 - \$6 million in admin expenses
- Employers Mutual Casualty of Iowa no relation

Fake Insurance Victims

- Self-employed
- Small businesses

9 Ways to Protect Yourself from Bogus Insurance

1. Sounds like a dream come true
2. Not healthy? No problem
3. Hot and heavy sales pressure
4. Never heard of the insurer
5. Your doctor's office is complaining

9 Ways to Protect Yourself from Bogus Insurance

6. Are insurer and broker licensed
7. Are there complaints www.naic.org
8. After buying, are you enrolled
9. How does premium compare

Advertising Industry Fraud

1. Latest guilty plea in print ad scandal
2. Sixth exec pleads guilty in ad print scandal
3. Former WPP exec pleads guilty
4. Another guilty plea in ad print scandal
5. Three plead guilty in print scandal
6. Color wheel founder pleads guilty
7. Grey worldwide exec John Steinmetz latest to be indicted
8. Suicide and guilty plea revealed in ad industry



Advertising Fraud: Where and How

Types of services

- Advertising
- Marketing
- Communications

Types of activities

- Embezzlement
- Bid rigging
- Bribery
- Kickbacks

Why the Ad Industry

- The industry
 - \$245 billion in a recession
 - 183,000 people and 13,800 agencies
 - Media buyers make or break entertainment projects
- Unsecured credit model
- Lack of written contracts
- Bill on estimate or in advance

Yellow Pages Plus

Amount of	Due Date for New Charges
241.46	November 9, 2002

Summary

Des Moines Yellow Pages Plus
Local & National Directory Services

- Listing Information as of October 3, 2002: 241.46
- Basic: 241.46
- Enhanced 411 Listing: No Charge
- Payment - Thank You! : .00CR
- Adjustments: .00
- New Charges (November 15, 2002 through December 1, 2002): 241.46
- TOTAL AMOUNT**: 241.46

411 SERVICES

- ANNUAL SERVICE: \$24.00
- BASIC SERVICES: \$24.00
- OPTIONAL SERVICES: \$98.00
- SEARCH ENGINE SUBMISSION: \$49.00
- FRONT BANNER ROTATION: \$24.00
- SERVICE ADDITIONS AND CHARGES: \$17.00
- ENHANCE 411: \$4.00
- TELL ME MORE SETUP AND PASSWORD ACCESS: .00
- LISTING REVISIONS: \$0.00

TOTAL 411 SERVICES: \$241.46

http://www.state.ia.us/government/ag/latest_news/releases/oct_2002/YellowPagePlus.jpg

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Qwest Invoice

Total Amount Due	Due Date for New Charges
\$49.65	November 4, 2002

Summary

- Previous Balance: 48.47
- Charges: 48.47%
- Payment: Thank you for your payment
- Balance Forward: \$0.00
- New Charges: 49.65
- Total New Charges: \$49.65
- TOTAL AMOUNT DUE**: \$49.65

411 SERVICES

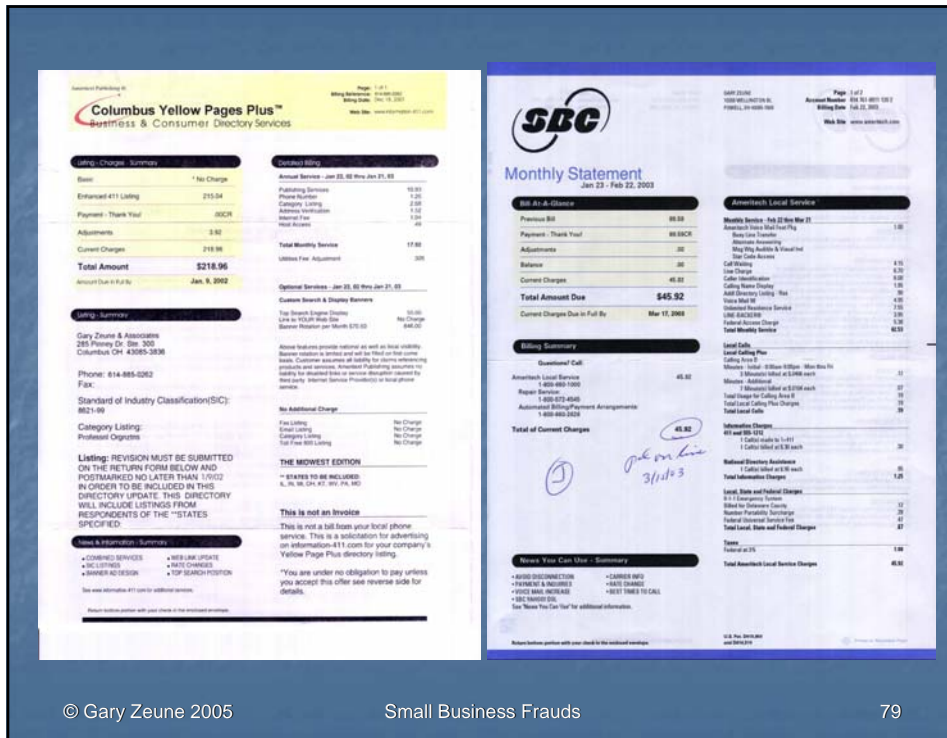
- MONTHLY SERVICE-OCT 10 THROUGH 9: \$3.75
- BASIC SERVICES: \$24.00
- OPTIONAL SERVICES: \$98.00
- SEARCH ENGINE SUBMISSION: \$49.00
- FRONT BANNER ROTATION: \$24.00
- SERVICE ADDITIONS AND CHARGES: \$17.00
- ENHANCE 411: \$4.00
- TELL ME MORE SETUP AND PASSWORD ACCESS: .00
- LISTING REVISIONS: \$0.00

TOTAL QWEST SERVICES: \$49.65

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Columbia Space Shuttle

- Crash revives uncertainties
 - Public attention diminished as space-shuttle missions seemed routine
 - Shuttle effort has history of missteps
- Space flight always carries a risk
 - Current success rate high, but failures often become catastrophic
- Members of safety panel fired after critiques of NASA

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Avoiding Sales Taxes on Art

- Worst-kept secret
- Prosecutors going after buyers and dealers
- 34 buyers paid \$34 million
- Sentenced to 7 years



Samuel Waksal, Imclone Ex-CEO



Dennis Kozlowski
Tyco Ex-CEO

Evading Sales Taxes

- "There appears to be a culture out there in which dealers and buyers think it's OK not pay their taxes. There are a lot of fish out there that could be speared."



Robert Morgenthau
Manhattan District Attorney

Telemarketers Targeted

- Do-Not-Call lists
 - States
 - National Bush signed March 11, 2003
- Federal list
 - Consumers can add their names July 1, 2003 at www.ftc.gov/donotcall
 - Telemarketers must buy list in September 2003
 - Telemarketers must purge their lists every 3 months
- Telemarketers say the registry will _____



Ohio Telephone Harassment

- Check your state's law
- Tell caller not to call again but does
- Penalties: \$1000 and up to 6 months
- Intent not relevant
 - "a caller cannot telephone an unreceptive listener," 3rd District Court of Appeals



Ohio Telephone Harassment

- Record caller's name, phone number, address
- Tell them not to call
- If get another call
 - County prosecutor
 - Local police
 - State attorney general consumer protection office



Telemarketer Do's and Don'ts

- Automatic dialers
- Play message with a toll-free number
- Fines of \$11,000
- Names on list 5 years
- Telemarketing Sales Rule
<http://www.ftc.gov/bcp/rulemaking/tsr/index.html>



Which Telemarketers Can Call

- Political organizations
- Charitable organizations
- Business relationships
- Industries regulated by FCC, not FTC
- Intrastate calls
- State-regulated industries
 - Direct sales calls exempt
 - Outside telemarketers not exempt



Fake Do-Not-Call Lists

- Losses
 - Few bucks
 - Lots of personal information
- "Hi. I'm from the _____ and I represent the Do-Not-Call list."
- FTC: 877-382-4357 or for advice see <http://www.ftc.gov/bcp/online/pubs/alerts/dncregalrt.htm>
- State attorney general



Fat-fingers Dialing

- \$16.42 (ASC) for 4-minute call \$6.19 (WorldCom)
- Common collect numbers: Dialed as:
 - 1-800-COLLECT 1-800-CULLET
 - 1-800-CALL-ATT 1-800-CALL-LAT
- Charges up to 3X intended rate
- Sprint's sub ASC operates 90+ numbers
 - Allegations "entirely unfounded"
 - Doesn't own the numbers
 - Just handles the billing
- What do you think?
 - Fraud Unethical Good business



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Farm Crop Insurance Fraud

- Cracking down
- Private companies
- Gov't subsidized
- Tips from neighbors
- High tech detection
- Cotton crops planted after wheat
- 100 soybean farmers
- Wheat farmers next



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Black Sheep



- Foot-and-mouth disease
- "bed and breakfast"
- Farmers, dealers and drivers
- What did they do to qualify for more money _____
- Spread the disease
- What could the gov't have done to prevent this _____



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Restaurant Rip-offs



Wine



Customer bills



Bargains

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Advance-Fee Scams

- The Woodway Group in Houston
- Quick loans for \$5,000+ to people with poor credit
- Call toll-free number
- Employee: "I've checked your credit."
- Send \$79 or provide credit card number
- More common during holidays



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Recognizing An Advance-Fee Loan Scam

- Advertisements: Classified section, Radio, Cable, Flyers
- "900" or "800" number
- Overnight or courier services
- Not same as a legit pre-qualified offer



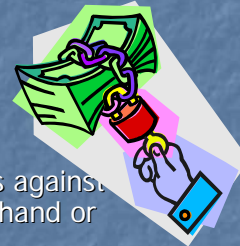
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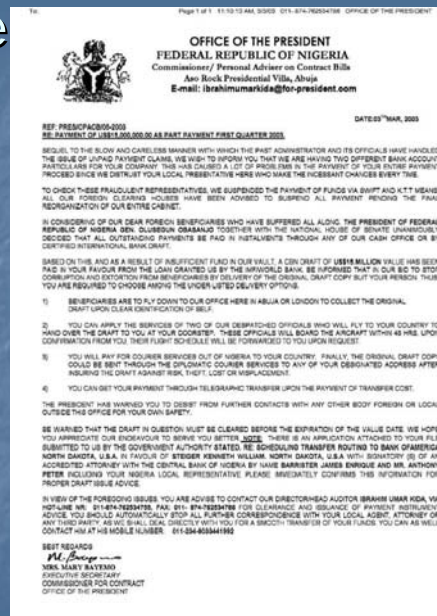
Advance-Fee Scams - Protection

- www.ftc.gov or 877-382-4357
- Legitimate lenders never "guarantee" or say that you are likely to get a loan or a credit card
- Telemarketing Sales Rule — It's fraud and it's against the law to ask for a fee if you don't have the offer in hand or confirmed in writing



Nigerian Advance Fee Scams

- "I got approached on this scam from Nigeria 15 years ago, and didn't bite, but I have a friend from Canada who put the \$50,000 in and ended up going to Nigeria to get it back and nearly lost his life."
[Lynford Theobald](#)
(another friend of mine 10 miles away, Jan. 27, 2003)
- http://easyweb.easynet.co.uk/~gca_seltor/spam/nigerian.html
- <http://home.rica.net/alphae/419coal>
- <http://www.snopes.com/inboxer/scams/nigeria.htm>



World's Funniest Joke



Sherlock Holmes and Dr. Watson go camping and pitch their tents under the stars. During the night, Holmes wakes his companion and says, "Watson, look up at the stars, and tell me what you deduce."

Watson says, "I see millions of stars, and even if a few of those have planets, it's quite likely there are some planets like Earth, and if there are a few planets like Earth out there, there might also be life."

Holmes: "Watson, you idiot. Somebody stole our tent."

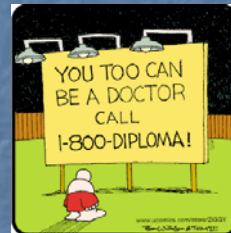
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College Scholarship Scams

- If you have to pay money to get money, it's probably a scam
- \$100 million annually
- "National," "Federal," "Foundation," or "Administration."
- Project ScholarScam
 - 9 cease and desist orders
 - 225,000 clients and \$32 million in fees



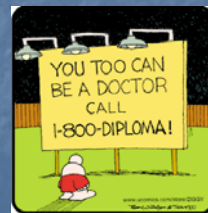
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Scholarship Web Sites

- www.ftc.gov/bcp/online/edcams/scholarship/
- www.finaid.org/scholarships/scams.phtml
- Dept of Ed 800-433-3243 or www.ed.gov
- Free Application for Federal Student Aid 800-801-0576 or www.fafsa.ed.gov
- BBB www.bbb.org/library/finaid.asp



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6 Types of Scholarship Scams

1. Scholarships for Profit
2. Advance-Fee Loan
3. Scholarships that Never Materialize
4. Scholarship Prize
5. Free Seminar Investment Required for Federal Loans
6. Guaranteed Scholarship Search Service



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6 Signs Scholarship is a Scam

1. "The scholarship is guaranteed or your money back."
2. "You can't get this information anywhere else."
3. "May I have your credit card or bank account number to hold this scholarship?"
4. "We'll do all the work."
5. "The scholarship will cost some money."
6. "You've been selected by a 'national foundation' to receive a scholarship," or "You're a finalist".



Protecting Yourself at Scholarship 'Seminar'

1. Don't be rushed into paying
2. Investigate the organization
3. "Success stories" or testimonials
4. Won't answer or give evasive answers
5. How much for what service



Legitimate companies never guarantee or promise scholarships or grants.

Cascade Pools in Las Vegas

- Gregory Majeroff
- United Federal Financial Corp.
 - Fake officers
 - No state mortgage license
 - No business license
 - No physical address
 - Majeroff only employee
- 120 homeowners
- \$1+ million
- No pools and no money
- Now in Texas



Cemetery Scam

- Menorah Gardens & Funeral Chapel
- FL AG alleges recycle graves
- Case is going to trial
- Employee burial book remarks
 - "no room for spouse"
 - "move Mrs. Kolin"
 - "dig this grave double deep"
 - "Where are the Lippits and who are the Haskell and are they both deceased? Move Haskell marker."



Funeral Scams

- Charles D. Stone convicted at 28
- Making \$100,000 and stole \$150,000
- "I guess I suffered from . . . I got too much too soon. I was on a roll — Superman, infallible."
- Made restitution
- Community service
- Has reapplied for funeral license

Prepaid Plans

- 1988 bankruptcy of prepaid plan
 - \$7 million
- Losses covered
- Prepaid funerals on the rise
- *Consumer Reports*
- Wide variation in oversight
- Cancellation or move?

Do You Wash Your Hands?

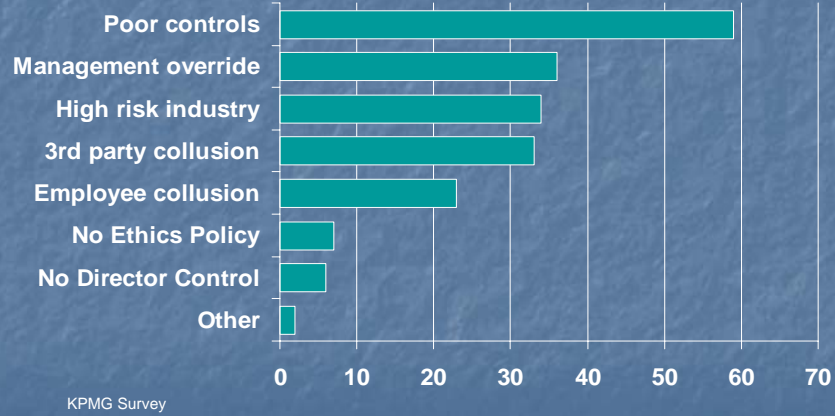
- 2 million infections + 100,000 deaths
- Influence of senior doctor
- Only ____% of staff washed hands
- More convenient sinks
 - New vs. old hospitals
 - ____% vs. ____%
- “Despite attempts over the last two decades to improve hand hygiene, altering hospital hand-washing culture may take some time.” Elaine Larson, Associate Dean of Research, Columbia University school of nursing



Weight Loss Companies

- According to a December Federal Trade Commission lawsuit, Mark Nutritionals Inc., of San Antonio, Texas, earned \$190 million in four years selling a \$40 solution that guaranteed weight loss even if the user consumed lots of pizza, beer, tacos and doughnuts.

How the Frauds Occurred

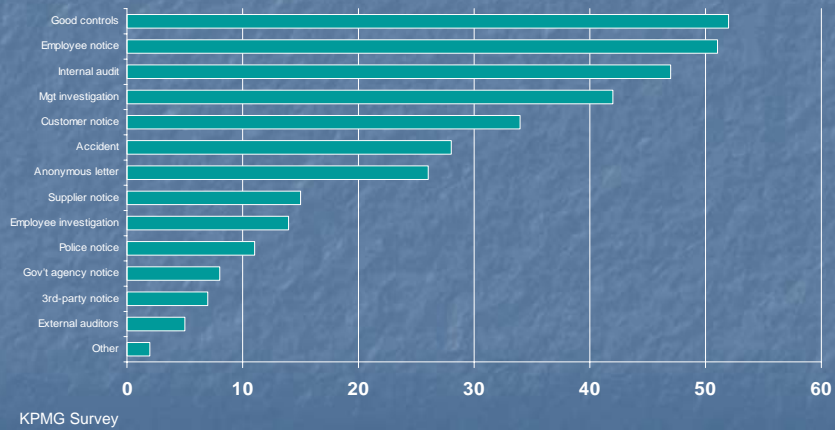


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How the Frauds Were Discovered

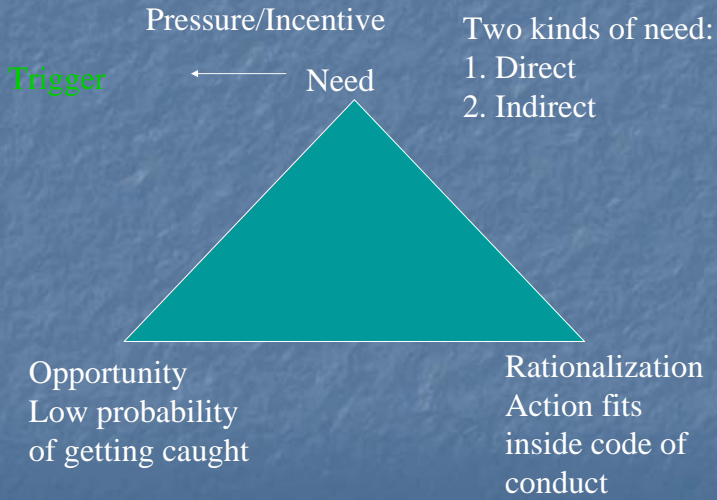


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The Triangle of Fraud

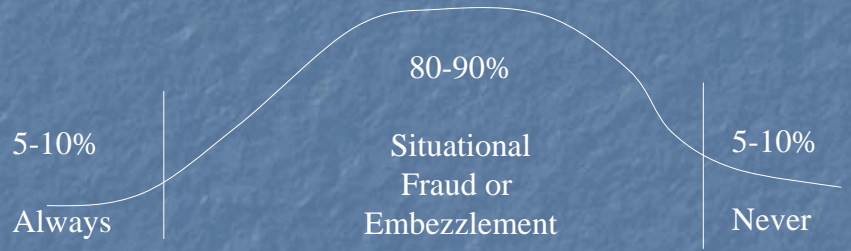


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Situational Fraud



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