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Fraud Files—January 2011

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E & Y TO TAKE FALL ALONG WITH LEHMAN BROTHERS

A lawsuit has been filed by the New York attorney General's office accusing Ernst & Young, one of the big four accounting firms, of assisting Lehman Brothers in disguising its financial condition for over seven years. The suit accuses Lehman of misstating its leverage within its financial statement. Ernst and Young's role in the lawsuit centers around the idea that E&Y was aware that the general public was being misled and they did nothing to change this, while their job is essentially to find and expose such practices. Three of the four causes of action against E&Y are made under the Martin Act, which is a powerful anti-fraud statute that gives the New York Attorney General an advantage over national regulators in regards to securities fraud cases. The Martin Act gives the Attorney General the power to file either civil or criminal fraud charges; luckily for E&Y the attorney general is only filing a civil suit. Unfortunately for Lehman executives, if Ernst and Young is found guilty they will most likely face criminal charges. The plaintiff is arguing that E&Y committed fraud by helping Lehman executives commit fraud. Now it is only a matter of time until actions are filed against the executives at Lehman who actually committed the initial fraud.

John Carney, "Attorney General's Suit against Ernst & Young is a road map for a Lehman criminal case," 22 December 2010, available at <http://www.cnbc.com/id/40780506>; accessed 23 December 2010.

FORMER STAR COMES CRASHING BACK TO EARTH

Christopher Farrell, a mortgage advisor and former contestant on the hit show the Apprentice, committed a \$750,000 fraud in attempt to boost his monthly bonuses. Farrell did this by forging clients' pay slips and other documents to obtain loans from mortgage companies. By exaggerating the incomes of clients, he obtained larger mortgages and better bonuses for himself. Plymouth magistrates ruled that the case was so serious that Farrell needed to be sentenced by a Crown Court judge, because their powers were not significant enough. Between September 2007 and August 2009, Farrell admitted to four counts of fraud by false representation. According to David Gittins, of the Crown Prosecution Service, all Farrell's clients were unaware of the frauds they were a part of. Gittins stated that Farrell only made a few hundred pounds off the fraud scheme but exposed the mortgage companies that were involved and his clients to a risk that homebuyers may default. Farrell worked for Mortgages 4 Plymouth and each month he achieved \$5,000 in fees for the company, he was given a bonus. Farrell forged documents of clients to make sure he would receive his bonus every month; even if there was a good chance he would receive it without the fraud. In Farrell's defense, Tracey Baker claimed the frauds were not sophisticated and 'highly likely to be discovered'. She said Farrell was having trouble supporting his wife and child, which led him to perform these fraudulent acts. Farrell was released on bail to appear at Plymouth Crown Court for sentence on January 28.

Associated Press, "Apprentice star Christopher Farrell admits four counts of fraud," 23 December 2010, available at <http://www.thisisplymouth.co.uk/news/Apprentice-star-admits-fraud/article-3034950-detail/article.html>; accessed 23 December 2010.

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HUGE JOHNSON FRAUD CASE IN VEGAS

A Utah pilot is being accused by the Federal Trade Commission of using his companies to scam consumers out of millions of dollars through fraudulent credit card charges. Jeremy Johnson, the owner of IWorks Inc., and nine others were named in a civil complaint filed in the U.S. District Court in Las Vegas. Iworks allegedly lured customers into product memberships for government grants and other programs, and proceeded to charge credit or debit cards for ongoing services. Once these customers found out they were being charged for nothing, the majority of them sought to have the charges reversed, which led to millions of dollars in fines from credit card companies for Johnson and Iworks, and the termination of many of their merchant accounts. In attempt to alleviate these problems Johnson and his coworkers committed more fraud, creating over 50 shell companies and applying for new merchant accounts through third-party payment processing firms. In Johnson's defense, Mark Schamel disputed the FTC allegations saying the complaint lacks evidence. IWorks uses a system that requires consumers to specifically stop services if they don't want to continue paying for them, this system is legal and they believe they have an opportunity to win the case on this basis. This is not the first set of legal problems for Johnson and IWorks, but it is by far the most serious and could lead to the demise of both.

The Associated Press, "Utah man charged in federal Internet fraud case," 23 December 2010, available at <http://www.lasvegassun.com/news/2010/dec/23/ut-internet-fraud-charges-1st-id-writethru/>; accessed 27 December 2010.

MAY THE MEDICARE FRAUD STRIKE FORCE BE WITH YOU

The owner and operator of Courtesy Medical Group in Miami, Yudel Cayro, was recently sentenced to five years in prison for his part in a wide-ranging Medicare fraud scheme targeting Miami home health agencies. Cayro must also pay roughly \$10 million in restitution with his co-defendants and co-conspirators. Cayro stated that his company operated in part to provide unnecessary prescriptions, plans of care and medical certifications, just to name a few, to Miami home health agencies in return for kickbacks and bribes. Courtesy Medical Group provided fraudulent medical documents so that home health agencies could bill Medicare for expensive services for diabetic beneficiaries who did not need and in some cases didn't even receive the service. As a result of the fraud, Medicare was billed roughly \$16.6 million for home health services, of which they paid almost \$10 million. Many of Cayro's co-defendants were also sentenced to jail time and forced to pay a large sum in restitution. Some of these co-defendants were nurses whose role in the scheme was falsifying patient files so it appeared these beneficiaries qualified for services they neither needed nor qualified for. These fraud cases were investigated by the FBI and HHS-OIG and brought as part of the Medicare Fraud Strike Force, which has obtained indictments for over \$2 billion worth of fraud since it's inception in early 2007.

"Florida clinic owner sentenced for role in Medicare fraud scheme," 21 December 2010, available at http://7thspace.com/headlines/367536/florida_clinic_owner_sentenced_for_role_in_medicare_fraud_scheme.html; accessed 27 December 2010.

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GREED SQUAD

A former Best Buy employee and one of the owners of a computer parts company were sentenced by a federal judge for their role in one of the biggest corporate fraud cases in the history of Minnesota. Russell Cole was sentenced to 15 years in prison for overcharging the local Best Buy roughly \$38 million by manipulating an online auction for replacement parts. The Best Buy employee involved in the case was sentenced to half the time Cole received, due in large part to his cooperating with federal officials in helping to convict Cole. Robert Bossany, the convicted Best Buy employee, was sentenced for covering up the scheme and taking bribes from Cole. Although Russell Cole received a harsh sentence, his wife Abbey was let off easily, with just three years' probation, despite her role in the scheme as co-owner of Chip Factory. The Cole's were found guilty of fraud, money laundering and income tax evasion and the trial exposed Best Buy's lack of internal control for monitoring its online auction as well as its employees' relationships with outside vendors. The fraud was finally discovered by a Best Buy operations manager who noticed the billing discrepancies in July 2007. Investigator's then followed the trail back to Bossany, who they found had received approximately \$100,000 in bribes from the Coles along with a Yamaha ATV and a Harley Davidson motorcycle. The Judge had very harsh words for Best Buy's V.P. of loss prevention and risk management, saying something to the effect of if he were CEO of Best Buy he would no longer have a job. The Judge did let the Cole's and Bossany off with much reduced sentences in comparison to what government prosecutors had sought and what guidelines allow.

Jackie Crosby, "Two sent to prison in big Best Buy fraud," 20 December 2010, available at http://www.startribune.com/business/112223234.html?elr=KArks:DCiUHc3E7_V_nDaycUiD3aPc:_Yyc:aUoD3aPc:_27EQU; accessed 27 December 2010.

THREE'S COMPANY

Three Cleveland area residents have recently been charged with a \$6.7 million mortgage fraud scheme. The fraudulent money was used to purchase luxuries such as high end automobiles, Televisions, and other personal items. Louis Amir, 36, was charged with one count of conspiracy, six counts wire fraud, 13 counts of money laundering and once count of perjury. Deirdre Ferguson, 46, was charged with one count of conspiracy, six counts of aiding and abetting wire fraud and two counts of aiding and abetting money laundering. Daphne Stokes, 45, was charged with the same crimes as Ferguson along with several other others. Amir, aided by the other two, allegedly fraudulently applied for and obtained six mortgage loans totaling roughly \$6.7 million to finance the purchase of a residence. The threesome caused four mortgage lenders to issue loans much higher than their true market value, resulting in approximately \$6.7 million in losses to the lenders. Amir was also indicted for several other things including his involvement in 13 financial transactions with the proceeds of the fraudulent mortgage loan scheme, and for committing perjury. Stokes was charged with theft of government funds and false statements, as well as providing a false social security number in order to obtain a loan, on top of her previous charges.

Faith Hampton, "Three from Gates Mills, Beachwood and Cleveland indicted in mortgage fraud case," 26 December 2010, available at http://blog.cleveland.com/sunpress/2010/12/three_from_gates_mills_beachwo.html; accessed 27 December 2010.

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THE WRONG WAY TO FLIP PROPERTY

Brett Thielen was sentenced to 27 months in prison for his role in an extensive mortgage fraud scheme that cheated lenders out of \$2.5 million in under a year. Thielen pleaded guilty to one count of mortgage fraud through the use of interstate wire and one count of engaging in a monetary transaction in criminally derived property. His sentence was reduced due to his cooperation with authorities in helping to incriminate other individuals involved in the scheme. Thielen and his accomplices carried out their mortgage fraud scheme by purchasing condominiums at approximately market value, then transferred these properties through a quit claim deed and proceeded to resell them to unqualified buyers at prices far above market value by falsifying mortgage documents. Thielen owned about 50 percent of the condominiums and so when the housing market took a downturn in 2005 he developed the fraud scheme that eventually landed him and his accomplices in jail. Thielen's scheme involved all sorts of deceitful tactics such as applications with false information about buyer income and credit worthiness, falsely indicating the value of the condominiums, wiring money to off-shore trusts, and engaging in illegal wire transfers which allowed him to sell his condominiums at greatly inflated prices and receive kickbacks from borrowed funds. The case is being investigated by the IRS Criminal Investigation Division and is ongoing.

Shawn Hogendorf, "Area man sentenced to mortgage fraud scheme," 22 December 2010, available at http://www.shakopeenews.com/news/general_news/area_man_sentenced_mortgage_fraud_scheme-112; accessed 27 December 2010.

ALMOST 8 MILLION BLOWN BY CHO

Randy Cho allegedly duped over 50 victims into believing they were purchasing shares of Facebook, Google and AOL/Time Warner and collected almost \$8 million dollars in the scheme. Cho used a substantial portion of the funds he raised for personal benefit and made payments to previous investors using money fraudulently obtained from new investors. Cho claimed to be a self employed securities trader and offered and sold almost \$10 million of shares of stock to over 50 investors from 2001 to 2009. Investors were led to believe that Cho had a special relationship with Goldman Sachs and could purchase discounted shares, and falsified the timing and existence of public offerings, and the potential profitability of safety of investments. Cho persuaded investors to lend him large sums of money by convincing them he could receive unreasonable discounts, such as shares of Google for \$1. All along Cho knew he could not receive any discounts and did not even plan on using the invested money to purchase any shares of Google or the company he claimed to be investing in. Cho falsified his income tax return, claiming his income was over \$1 million less than what it actually was on his 2005 return. All in all investors lost almost \$8 million investing in Cho and he will most likely do some serious time for his various infractions.

"Chicago man charged in Facebook/Google stock scheme," 27 December 2010, available at <http://www.myfoxchicago.com/dpp/news/metro/andy-cho-chicago-investors-stocks-facebook-google-investment-20101227>; accessed 27 December 2010.