

THE BUSINESS OF LINKING
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Fraud Files—October 2009

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1. THIRST FOR CASH

The former chief executive officer of Le-Nature's, Inc. has been charged, along with four co-defendants, in a 29-count indictment that was unsealed September 28, 2009. The accusations allege approximately \$806 million was siphoned to the ex-CEO and his family. According to U.S. Attorney Mary Beth Buchanan, this is the largest fraud in the history of the Western District of Pennsylvania, an area that covers twenty-five counties. Gregory Podlucky turned over "dramatically false financial statements" to various financial institutions and suppliers in hopes of obtaining loans and leases for what lenders and investors believed would be used for business operations and equipment. The false documents led to various lenders and investors supplying the company with cash, via loans and investments, in excess of \$700 million. This was discovered during a criminal investigation that arose when a bankruptcy judge determined the company directors had likely engaged in fraudulent activity. Le-Nature was forced into bankruptcy in 2006. Although jewelry totaling tens of millions of dollars and model train set with an approximate value of \$1 million have been recovered, it is being requested of Podlucky that he forfeit his bank accounts, which are believed to be valued at more than \$7 million. The funds Podlucky spent were mostly used for the benefit of himself and his family. In addition to the mansion he was having built, Mr. Podlucky has also been known to drive a Hummer or Mercedes Benz. The company's former accounting director, as part of her guilty plea to bank fraud and other charges, has been cooperating with authorities. She admitted to doctoring the company records under Podlucky's instruction. As part of the deception, the financial statements were altered from an actual \$32 million in revenues for 2005 to an inflated \$275 million.

Mandak, Joe, "Ex-CEO of Pa. drinks-maker charged in \$806M fraud," AP, 28 September, 2009; available at: <http://www.npr.org/templates/story/story.php?storyId=113282085>; accessed 16 October, 2009.

2. FOLLOWING THE COMMANDMENTS AT CHURCH

Amy Colling, former executive director of the Community Covenant Church day care and wife on an Omaha, NE police officer, has been convicted on charges of theft by unlawful taking of more than \$1,500 from the ministry during the years 2003-2006. According to the County Attorney, more than \$91,000 was stolen in the specified timeframe. Included in the amount taken were monies used for such purchases as an X-box video game system, clothing from Macy's, a 24-pack of Bud Light, and a family membership to 24-hour Fitness. Additionally, Colling overbilled the church for hours her daughters worked while they were in school full time and for repairs her husband made to the church that were not performed, according to church members. Colling, who had been a kindergarten teacher in the Omaha public school system (OPS), was on paid administrative leave. The OPS terminates employees with felony convictions. She faces up to twenty years behind bars when sentenced in December. As argued by Bill McGinn, Colling's attorney, there was little to no oversight or restriction on the authorization required for purchases. First alerted when payroll tax forms did not match, the church conducted an internal audit that expanded to the hiring of an external auditor. Although the church would like financial restitution, they have no plans of bringing a civil suit. "She was a trusted employee, church member, and a close friend to the pastor and others. The church forgave her a long time ago, but there are still consequences," said Rodney Halstead, a church council member. The day care is still in business and has up to 130 children enrolled.

Fretland, Katie, "Woman steals from day care," omaha.com, 19 September, 2009; available at <http://www.omaha.com/article/20090919/NEWS01/709199918>; accessed 21 October, 2009.

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3. EMPLOYEE TAKES DEALERSHIP OWNERS FOR A RIDE

Christien Atwood-Calverly has agreed to admit sufficient facts for a finding of guilty in her case just before going to trial on three counts of larceny. A thirteen-year employee of Stagg Chevrolet, Atwood-Calverly and her children were treated like family. The fraud occurred between 2000 and 2008. In addition to bonuses and commissions she paid herself, Atwood-Calverly also paid herself extra vacation pay. She also gave herself discounts on vehicles she purchased through the dealership. Atwood-Calverly also paid her car note through corporate accounts, marked her own repair bills paid, and forged signatures on a company credit card. After leaving the dealership for work closer to home, Atwood-Calverly called requesting her final two weeks of vacation pay in May 2008. Acting on this request, the payroll company found she had already paid herself for an extra 13 weeks of vacation pay, totaling slight over \$11,000 during the previous two years. Atwood-Calverly received a suspended sentence of one-year in jail, placed on probation for four years, and ordered to repay the dealership its fees for the fraud team to go through the company's books and records. The amounts stolen from the company are being covered by the company's insurance carrier. According to Marilyn Stagg, co-owner of the dealership, "If she hadn't been so greedy looking for that extra two weeks. Then we found the money, the car payments, the ID theft, and the forgery."

Milton, Susan, "Woman admits stealing from auto dealer," capecod.com, 07 October, 2009; available at <http://www.capecodonline.com/apps/pbcs.dll/article?AID=/20091007/NEWS/910070327/-1/rss02>; accessed 28 October, 2009.

4. FROM INFORMER TO INMATE

A computer hacker turned Federal informer turned fraud driving force has pled guilty in one of the largest identity theft cases in U.S. history. Albert Gonzalez entered pleas to nineteen counts in Massachusetts, which included, among other charges, conspiracy, computer fraud, and aggravated identity theft. He additionally pled guilty to one count each conspiracy to commit wire fraud in New York. Among the retailers whose systems he hacked into are TJX, OfficeMax, Boston Market, and Barnes & Noble. (In a recent settlement, TJX paid \$9.7 million to forty-one states after hackers stole credit card information in one of the largest data breaches ever - <http://www.securitymanagement.com/news/tjx-settles-data-breach-97-million-005941>).

Prior to sentencing, as part of the plea deal, Gonzalez must forfeit bank accounts that hold in excess of \$2.7 million, his Miami condo, BMW automobile, a Tiffany ring he gave his girlfriend, and Rolex watches he gave to family and friends. Sentencing, which is scheduled for December 8, 2009, could send Gonzalez to jail for up to 25 years (15-25 in Massachusetts and up to 20 in New York) instead of the several hundred years the charges would have held in Gonzalez was convicted of all charges faced. The sentences are scheduled to run concurrently.

Lavoie, Denise, "Former Informant Pleads Guilty," [washingtonpost.com](http://www.washingtonpost.com), 12 September, 2009; available at http://www.washingtonpost.com/wp-dyn/content/article/2009/09/11/AR2009091103773_pf.html; accessed 29 October, 2009.

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5. FRAUD GONE WILD

“Due to Diamond Jo Casino LLC refusing to honor its obligation to provide the venue, we are unable to produce the event as planned. This matter has been referred to legal counsel.” This is what ticketholders saw when they logged onto the website for the Rock Gone Wild concert they were to attend August 20-23. Diamond Jo Casino is being blamed for the demise of the four day rock music festival known as Rock Gone Wild, which was in its inaugural year. Promoters are charging they lost millions over the cancellation. According to Ted Sporer, the attorney for Rock Gone Wild, LLC, “The cancellation of the event was pretty devastating for our people.” The event, which was originally scheduled to take place at Freedom Park in Algona, Iowa, was moved due to space and logistics to Diamond Jo Casino. The concert event, which was to feature over fifty rock bands, expected to bring thousands to the area. The move was originally approved, but when contracts drawn up by the casino’s legal division didn’t comply with the original agreement, promoters were not able to accept the terms. The casino’s major concern was personal and event liability and stated the promoters did not provide ample liability insurance. Left in the lurch are ticketholders who paid up to \$565 plus tax for a ticket, money paid out for travel/transportation, lodging, etc. Sporer stated, “We’re trying to put together a plan that will take care of ticketholders.”

Buehner, Kristin, “‘Rock’ promoters promise lawsuit,” *globegazette.com*, 14 August, 2009; available at http://www.globegazette.com/articles/2009/08/14/news/local/doc4a84e69cf088221005976.txt#vmix_media_id=7072863; accessed 26 October, 2009.

6. ANOTHER FOUL BALL

For the second year in a row, federal agents attended the National Sports Collectors Convention, issuing subpoena to sports enthusiasts and collectors for various records, including auction invoices. In addition to issuing the subpoenas, the FBI and USPS agents interviewed different auction house officials, memorabilia dealers, and authenticators. The subpoena recipients and interviewees were among some of the largest in the industry, including Lelands, SportsCard Guaranty, and Hunt Auctions. Hoping to gain information regarding the sale of counterfeit jerseys, fake game-used items, and other fraudulent merchandise, the agents issued the subpoenas and conducted the interviews. This process was not to identify targets of the probe, but to merely collect information that might assist the agent in the operation, which is similar to “Operation Foul Ball”, which brought down a multistate forgery ring dealing in autographed baseballs in the 1990s. They have additionally investigated skill bidding and fraud by Mastro Auctions (which has since folded with several key employees purchasing assets and forming Legendary Auctions). Also on the agents’ agendas was trying to determine whether some historic documents were stolen from the New York Public Library, as alleged. The documents include letters to baseball pioneer Henry Wright. The appearance of the agents in 2008 caused a stir at the convention. Dealers and collectors who remembered the agents from last year seemed at ease this year, as the agents, who were dressed more like fans than Feds, moved from booth to booth.

O’Keeffe, Michael, “Feds hunt for fraud at National Sports Collectors Convention,” *nydailynews.com*, 01 August, 2009; available at http://www.nydailynews.com/sports/baseball/2009/08/02/2009-08-02_feds_hunt.html?print=1&page=all; accessed 28 October, 2009.

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7. TRAINING HELD TO FIGHT INTERNET CRIMES

A conference funded by the Commonwealth Secretariat and supported by the Global Prosecutors e-Crime Network, the UK's Crown Prosecution Service, and the International Association of Prosecutors was recently held in Bermuda. This training addressed the use of new technologies in crime, via internet, email, and mobile phones. The idea that high-tech crimes are victimless is a myth that Director of Public Prosecutions in Bermuda Rory Field is trying to dismiss. "We have just had a guilty plea today to a pornography case where a girl under the age of 14 was being used in order to make a film which was being put out on the internet. That can hardly be said to be a victimless crime." The idea of the conference was to look deeper into crimes like fraud and online scams and see that the ancestry are much deeper and can be linked to more menacing crimes. Mr. Field states, "The monies [used to finance] fraud may come from things like human trafficking, arms or drug trafficking - or the profit may be put back into those types of crimes. It may even go into terrorist financing." New technology brings challenges to police and prosecutors. At the same time, it also has brought aid to certain aspects of crime resolution. The use of mobile phones in the course of a crime can be very helpful, in that not only are calls logged, but texts can be recovered, as can the geographic location of the phone at the time. Understanding that the world has evolved is key to authorities and part of the reason for the development of this training. Police and prosecutors from 15 Caribbean countries attended the conference, with training led by experts from the UK Crown Prosecution Service and the US Department of Justice. The focus of the training was providing skills in recognizing and collecting evidence, improving retention and analysis techniques, and evidence presentation at trial. In closing, Mr. Field remarked, "It is important to have international co-operation to act in coordinated manner if you are going to fight the crime."

"Internet pornography, hacking and fraud probed in Caribbean,"
thecommonwealth.org, 09 September, 2009; available at <http://www.thecommonwealth.org/news/177370/213415/090909hightechcrime.htm>; accessed 30 October, 2009.