

WHITE-COLLAR CRIME

FIGHTER

www.wccfighter.com

YOUR SECRET WEAPON IN THE WAR ON FRAUD

LUME 5 NO. 11
NOVEMBER 2003

IN THE NEWS

Sarbanes-Oxley In Action

In one of the first cases of document destruction alleging violation of laws contained in the Sarbanes-Oxley Act, the US Justice Department arrested and charged Ernst & Young accountant, Thomas Trauger, with altering and deleting records on financial statements of former E&Y client, NextCard.

Details: According to the complaint filed by FBI Special Agent Jason Richards, Trauger, along with two other senior E&Y accountants, destroyed, altered and falsified paper and electronic copies of documents related to E&Y's audit of NextCard's quarterly and annual financial statements for fiscal years 2000 and 2001.

The complaint also alleges that Trauger assisted in the collection and production of altered workpapers for the Office of the Comptroller of the Currency (OCC), pursuant to a subpoena addressed to Mr. Trauger.

The last nail: In April 2003, Trauger gave sworn testimony to the SEC related to NextCard where he allegedly failed to disclose his alteration and destruction of documents before submitting them to the OCC. This, according to the complaint was done "with the intent to impede, obstruct and influence the investigation...of a matter within the jurisdiction of... the SEC."—a direct violation of U.S.C. 18 Sec. 1519, contained in the Sarbanes-Oxley Act.

White-Collar Crime Fighter sources:

• *Criminal Complaint in United States of America v. Thomas C. Trauger*; United States District Court, Northern California.

• US Attorney's Office, Northern District of California, <http://www.usdoj.gov/tu/sao/can>.

IN THIS ISSUE

- **EX-CON INSIGHTS**
Fraud happens..... 3
- **INSURANCE FRAUD HOTLINE**
"CPT Code Creep"..... 4
- **INVESTMENT FRAUD CONTROL**
Securities fraud..... 5
- **THE CON'S LATEST PLOY**
Law-enforcement successes from around the country..... 7

FRAUD HAPPENS

How An Honest Employee Crossed the Line



I'm beginning to feel as though my time spent in prison wasn't completely wasted. While I was incarcerated for 13 months of a two-year sentence for embezzlement, I knew I had to take this experience, turn it around and use it to create a positive and productive future for myself and others.

MY LIFE-ALTERING MISTAKE

My first and only crime of embezzlement of about \$18,000 from McClellan Equipment, Inc. in Hanford, CA continued from about September 1998 to January 1999, until a bank-processing employee finally caught me.

Fraud experts have told me that most employee frauds are committed when one or more elements of the "Fraud Triangle" apply to an individual. Those elements are financial pressure...rationalization...and opportunity.

In my case, all three were present. I allowed myself to see embezzlement as a way out from a huge debt burden that resulted from child support attachments (I owed my ex-husband \$20,000 in child support)...arrearages attached on my earnings by my ex-husband and other factors.

Though McClellan Equipment had an auditor/controller and a very rigid and micro-managing office manager who had been with the McClellan family business for more than 25 years, I was so desperate that I wasn't deterred by the financial watchdogs. So I embezzled the \$18,000.

How: I was solely in charge of invoice input for accounts payable (A/P) and for doing the check runs. Having these duties

together in my job description made it easy to "intentionally" make mistakes, like cutting a check for a past due invoice that had just been paid and placing a typed label with my name over the payee name.

Another scheme I pulled was to get a check signed and then make it out to myself. This was possible because the owners were often out of the office. So, for "emergencies"—when I told the owners that I might have invoices needing immediate payment during their absence—the controller or the owner would sign two or three blank checks in advance, enabling me to make them out to myself and enter dummy invoices to account for them.

A LITTLE HELP FROM THE BOSS

Unknowingly, our friendly "micro-managing" office manager, Ina, helped me commit my crimes. She ran the A/R function, but she also would hold onto checks that were ready for mailing until she deemed it the right time to mail them.

Result: She incurred late fees with vendors and even got calls demanding immediate payment before new orders would be shipped.

By doing so, she inadvertently helped me cover up my check frauds by making it easy for me to convince the owners that I needed the "emergency" checks to pay a vendor ...and in showing how I could "accidentally" input an invoice twice, since she was constantly asking angry vendors to send another invoice.

I was caught when a bank check processing employee noticed one of my nifty typed labels in the payee space of a

check. She inspected the check closely and found that the legitimate payee's name was underneath my label. She called the office manager to notify her of this and that was the beginning of the end for me.

GOING TO JAIL...

I was convicted and sentenced, and sent to the maximum-security Valley State Prison For Women (VSPW) in Chowchilla, CA.

I was paroled from VSPW on July 11, 2000, for a final 13 months on parole in Hanford, CA. I completed my parole with no problems and was finally discharged from the California Department Of Corrections in the summer of 2001.

LESSONS FOR MANAGERS

Prior to my embezzlement I had barely had a traffic ticket. I now know that typical

While I was incarcerated for 13 months of a two-year sentence for embezzlement, I knew I had to take this experience, turn it around and use it to create a positive and productive future for myself and others

background screening is no guarantee that a seemingly honest employee won't experience a financial crisis that creates the sort of desperation that ultimately drove me to commit fraud.

Problem: A large and growing number of middle age women are suddenly faced with being the financial head of household...with no skills and little experience. Divorce is certainly a huge factor. But a spouse's sudden premature death or disablement can also create the desperation.

For me, being newly single and heavily in debt, and stressed by family issues, made me a perfect candidate for disaster.

Therapy or some other form of emotional counseling would have been valuable, but I couldn't afford it.

SIGNS TO WATCH FOR...

Unfortunately for my employer, many of the red flags of employee distress went completely unnoticed. All companies should have enough trained managers and supervisors to be able to detect such signals as a sudden loss of efficiency in work production or increasing absences.

□ Taking too much interest in controlling paperwork.

□ Changing computer passwords unusually often.

□ Staying late and coming in early.

BASIC PRECAUTIONS

It's been said over and over, but it still bears repeating: Always split up the A/P and A/R functions. Giving too much control to one person in one area is like giving away your bank account and your company's clients/assets, etc. In my case, the company was blind to my illegal activities because while there was one person in charge of A/R and another in charge of A/P there was no requirement for cross-checking each other's work. Had there been a system of having the A/P person, the A/R person and the auditor/controller all double-checking each other's work, I never would have been able to pull off the thefts.

HELPING TROUBLED EMPLOYEES

Without healthy and emotionally stable employees, your company can't be performing as well as it should be.

One reason that honest behavior breaks down in companies is because top management too often takes employees for granted. This is especially common in weak economic times, when it is tempting to lay off poorly performing workers, rationalizing the move by assuming that "There are plenty of candidates out there if we need them, and we don't have to worry about hiring criminals because we have a background screening process." It is a legitimate, but short-sighted perspective.

Providing benefits such as insurance for mental health services and related counseling, as well as physical fitness programs, has proven time and again to prevent valued employees from becoming disgruntled or resentful. That in turn reduces the chances of having honest employees jump to the wrong side of the integrity line.

I make no excuses for my illegal acts. But, while many managers argue it is not the company's responsibility to ensure the physical and mental health of their employees, at least noticing when an employee may be in trouble... and attempting to find assistance may often be all that is needed to prevent a troubled employee from crossing the thin line from honesty to crime.

White-Collar Crime Fighter source:

Teri Lyn Norwood, who lives in Tehachapi, CA and is seeking employment. She will be speaking to corporate executives through the ex-convict speakers' bureau, The Pros and the Cons, run by Gary Zeune at 614-761-8911 or gzfraud@bigfoot.com.

WHITE-COLLAR CRIME FIGHTER

Editor

Peter Goldmann

Consulting Editor

Jane Y. Kusic

Managing Editor

Juliann Lutinski

Senior Contributing Editor

Linda Stackman-Vines

Associate Editor

Barbara Wohler

Design & Art Direction

Ray Holland, Holland Design & Publishing

Panel of Advisers

Credit Card Fraud

Barry F. Smith, BFS (Bankcard Fraud Solutions), Inc.

Audit & Risk Management

Steven I. Adler, Senior Auditor, Health Net Inc.

Victim Services & Support

Debbie Deem
Financial Crime Victim Advocate

Corporate Fraud Investigation

Barry Brandman, Danbee Investigations

Corporate Integrity and Compliance

Martin Biegelman, Microsoft Corporation

Securities Fraud

G.W. "Bill" McDonald, Investment and Financial Fraud Consultant

Prosecution

Phil Parrott, Chief Deputy District Attorney
Denver District Attorney's Office,
Economic Crime Unit

Computer and Internet Fraud

Raemarie Schmidt
Supervisory Computer Crime Specialist
National White-Collar Crime Center

Public-Private Sector Cooperation

Allan Trosclair, Executive Director,
National Coalition for the Prevention of
Economic Crime

White-Collar Crime Fighter (ISSN 1523-0821) is published monthly by White-Collar Crime 101, LLC, 213 Ramapoo Rd., Ridgefield, CT 06877. www.wccfighter.com. Subscription cost: \$275/yr. Canada, \$299. Copyright © 2003 by White Collar Crime 101, LLC. No part may be reproduced without express permission of the publisher.

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.