

FRAUD TALK – EPISODE 94

The 5 Most Scandalous Fraud Cases of 2019

This month's podcast is December's Facebook Live recording during which ACFE President and CEO Bruce Dorris, J.D., CFE, CPA, and *Fraud Magazine* Associate Editor Emily Primeaux, CFE, unveiled the most scandalous fraud schemes of the year. The article is [available now on Fraud-Magazine.com](#).

Transcript

Emily Primeaux: My name is Emily Primeaux, and I am the associate editor of *Fraud Magazine*. I'm here with Bruce Dorris, the ACFE's CEO, because we're going to discuss probably the most anticipated and exciting topics for Facebook Live this year — the five most scandalous fraud cases. Are you excited?

Bruce Dorris: I'm overly excited. I know each and every person watching this on Facebook Live or recorded is just as excited. We've got lists for virtually everything else at the end of the year, so why not have the top five most scandalous frauds?

Emily: Yeah, and this article isn't available yet, but it will be the first week of January on Fraud-Magazine.com and in the January/February issue of *Fraud Magazine*. We're going to unveil them now and give you a little sneak peek of the issue and talk about each case. As a reminder, as we discuss these infamous fraud schemes, we encourage you to share your thoughts and comment on Facebook in the comments section below. But first, before we jump into the fraud schemes, Bruce, can you tell everybody how we came up with this list?

Bruce: Sure. We started a podcast a number of years ago just to go over a few of the more scandalous frauds, or noteworthy frauds, that we had looked at over the past year. They may not have been created by that fraudster during that year, but they certainly came to light during that calendar year. When we had that podcast, we noticed it was one of the most listened to and downloaded podcasts. Earlier in 2018, you, along with the communications and research team, started to think about how we could have our own top five list of most scandalous frauds. That went through a pretty serious vetting process, as you know, Emily, and us looking at what happened in this particular year, in 2019.

Last year, in 2018, a lot of frauds that we looked at, about 10 to 15, did the same thing this year, vetted those out. Not so much in terms of what that amount lost would be — because some of these that we'll talk about today, seven, eight billion dollars US, some not nearly that amount — but how that fraud impacted a community, how it impacted a nation, how it impacted a region. Those were the criteria that the committee within the ACFE, along with taking that list, those 10 to 15, submitting it to our Advisory Council, who then did a separate vetting of it, and then started to figure out, “Okay, these we think are the top most scandalous frauds, these top five most scandalous frauds of the year.” That's where we are today, Emily. Putting together a fantastic article that you get to read, beginning on January 1. But as she said, we're here to unveil and talk about those today.

Emily: Yes. It was, like Bruce said, quite the vetting process. Very passionate in house about what we got the list down to, so we didn't make it easy for the advisory council.

Bruce: Yes. For those that didn't make it on that list, we have our dishonorable mentions to make sure that noteworthy nonetheless but maybe not as scandalous as one of the other ones, so you get to read about that as well.

Emily: You'll have to catch that online or in the magazine.

Bruce: Yep.

Emily: Why don't you kick us off with our list of five?

Bruce: Sure. The most scandalous one, at least this is in my opinion, others may have it— we have that top five list — but one that really stands out is the college admissions scandal here in 2019: Operation Varsity Blues, as it was labeled by the Department of Justice in the U.S. This one came to light in March of 2019. As of now, 51 people were alleged to participate in this particular fraud. What happened, there was an individual named Rick Singer out in California, in the Los Angeles area, had a group called The Edge College & Career Network and also had a nonprofit named Key Worldwide Foundation.

What he would do is, using his connections, either through certain universities here in the U.S. or college exam admission takers... For those who need to get into an exam in the United States, there are certain, or rather to get into a college in the United States, there are certain exams that need to be taken. What Rick Singer would do is set up for those to either be changed and altered or having just a surrogate test taker come in on certain ones. Now, obviously he didn't do that for free. What he would do is going to some very lucrative and well-known individuals, primarily in the U.S. Many people know who Lori Loughlin is.

Emily: Aunt Becky!

Bruce: Aunt Becky from “Full House” in the late 1980s, 1990s and still acting even up until this fraud was uncovered back in March of 2019. Other actors and actresses, as well, and then a lot of businesspeople who were fairly high ranking, former CEO of PIMCO, and others within the West Coast and East Coast of the United States and some very, very high organizations and businesses in those companies. What was really egregious about this, it wasn't just the fact that they would go in and take those exams. That alone is pretty pronounced, but it was just how the parents were involved with this. You've read it, Emily, you wrote the story about it.

You've got Rick Singer going to these universities, using that connection because a lot of the folks, it was over 30 that were just the parents of the 50 who were involved with this. Not only people within Rick Singer's organization, but also coaches at these very prestigious universities throughout the United States. University of Southern California is the one that really came to light because of the Hollywood connections to it, but even here in Austin, Texas, at the University of Texas at Austin, the tennis coach was brought down in this particular scam as well.

It's interesting the way it came about. There is no honor amongst thieves.

The Justice Department was investigating a guy name Morrie Tobin in Los Angeles for some securities-related fraud. As part of that investigation, he brought to light how he was approached by the soccer

coach at Yale, and then recorded a conversation there about how much it would cost in order to be recruited by this prestigious university in order to move up in the application process because a lot of these teams have a certain amount of applicants that they can take and in this case, a certain number of people who went to the highest bidder. I don't know what your take on this one is, Emily, but this one to me is *the* most scandalous fraud of 2019.

Emily: The fraud scheme aside, the parents really did a disservice to their children. It really impacts also a lot of students in America who could have had those spots, who were left out of universities, or missed out on opportunities because of this elaborate scheme. You have money changing hands. You have celebrities involved, and then you have the unnamed, the faceless students who probably missed out on pretty impressive opportunities because of this scheme. It really is, like you said, probably at the top of when it comes to egregious acts.

Bruce: That's a great point that you have there. You got a child who has worked virtually their entire life at this point, like, "I really want to go to this very elite school." Come from a disadvantaged background, and they really worked to get there, only to have that spot because there's only so few at that [level], that because of somebody donating half a billion dollars, or whatever, or half a million dollars to this foundation in order to get their kid in. Pretty scandalous in my opinion. It looks like it is in yours as well.

Emily: Yes, it is.

Bruce: But! We said there were five on our list. There's more to come.

Emily: Shifting gears a little bit from university to data breaches, which I think is always top of mind for our members and our community.

Bruce: Absolutely.

Emily: Fraudsters are using technology every step of the way these days. As we come up with new technology, they're finding ways to break into it, use it for their own nefarious deeds. In July 2019, Paige Thompson was accused of breaking into the Capital One server and gaining access to 140,000 Social Security Numbers, one million Canadian Social Insurance Numbers, and 800,000 bank account numbers, plus an undisclosed number of people's names, addresses, credit scores, credit limits, balances, and other information. It's one of the largest breaches that we've seen. We've had Anthem, Home Depot, Target. Every year, it seems to be someone new, and you would think at some point we would find a way to keep this from happening, but like I said, fraudsters are finding new ways. The interesting thing about this is Thompson tried to share the information with others online, which is how she was caught, but nothing was done with any of this information. It was almost like she was trying to see, "Can I do this, and are people interested in this information?"

I talked to Tom Shaw, a CFE who's quoted in the article, and he's now a financial services consultant, and he brought up a really interesting point. While Thompson didn't really do anything with the data, it really put financial institutions on their... They had to be on their toes now. There's all of this data that's been compromised. They don't know exactly whose data has been compromised, so they really have to shore up their defense systems, come up with new ways to look at Know Your Customer (KYC), and just really build up their defense to be ready if something is done with this data.

Bruce: Because it could hang out on the dark web for months, if not years, for that matter.

Emily: Yeah, definitely. Aside from being such a huge breach, I think it's something that fraud examiners really every year are trying to find new ways to attack these kinds of breaches or even implement systems to help their companies prevent them. Do you have any...?

Bruce: That's what we as fraud examiners have to be aware of. When you look at the *Report to the Nations* — you've been a part of this, Emily, for a number of years as well — when we look at what the “stereotypical fraudster” is, it's someone that's been with an organization for a while, maybe high ranking, fairly well-educated, but this type of fraudster doesn't fit that norm. When you look at that traditional fraudster, there is a financial gain to it. In some of these, it's more about disruption.

Ian Yip, who is someone that's spoken at ACFE conferences, was a former chief technology officer at McAfee in the Asia-Pacific region, and I remember Ian talking to me about how it's no longer this middle-aged person that's highly educated. It's someone in their teens even who are in their house or apartment somewhere just trying to break in and hack these systems for no other reason but to just do it.

Emily: To say they could.

Bruce: Fraud examiners have to be vigilant of that as well. It's not just the inside, but there are so many external threats. Tom Shaw's been with a number of financial institutions over the years, and I remember one in particular, the cyber defense, a network that he had within that very large bank. It's a constant minute-by-minute threat. It's something that we have to be aware of, we have to stay on top of.

I know the most recent issue of *Fraud Magazine* talks about the dark web and what fraud examiners need to be looking for there, even though it's not something that's in their daily activity, but they need to be aware of it and what fraudsters are doing.

Emily: Definitely. That was an easy one to throw on to the list, and our Advisory Council agreed.

Bruce: Yes, a hundred million accounts, that's quite a bit.

Emily: All right. Number three, moving on.

Bruce: Talking about volume and the third one that we have on our list, the Steinhoff International Holdings or the Steinhoff Group based out of South Africa. This one, largest corporate scandal in South African history, also within Germany and in other countries. Here, in the U.S., I think it's Mattress Firm which they hold as part of their holdings, so it's a *huge* corporate accounting scandal.

This one's still coming to light even though it's been over the last two years slowly coming out, but a few months ago, based off the South African government wanting more investigation as well, or more information, as well as internal investigations and external reports from PwC. That PwC report came out noting that it's a \$7.4 billion fraud. We talked earlier about the most scandalous and that some may be quite large. This one obviously in terms of some of the accounting failures associated with it.

The former CEO, who stepped down as soon as this came to light, Markus Jooste, again based in South Africa. The report itself, as you know, Emily, as you were doing on your report, over 3,000 pages. Again, a lot of this is coming to light. A lot of it's still privileged because of the investigation that's going on within the government looking at this, but some of the things that I'd noticed, and a lot of fraud examiners will really take note of this, the levels of deception being quite complex and a lot of the accounting transactions, how well-shrouded they were.

What they did is looked at a number of acquisitions over the last few years and the value of those and how those revenues and ultimately those profits were reported, and there's been a huge market correction — well, internal corrections as well — but the market capitalization has dropped quite a bit as this information has been ongoing. I think there were eight executives who were involved with this as we've learned and have dropped—

Emily: It lasted for eight years, 2009 to 2017, that they were recording irregularities.

Bruce: Yes.

Emily: Is that right? So...eight years.

Bruce: As fraud examiners, we really have to start looking even within these audited financial statements. The one thing that we see from the *Report to the Nation* is even though that's the control that's in place, that doesn't necessarily mean that it's going to find out where fraud is simply because of that opinion, and that we as fraud examiners have to make sure that we've got a good internal audit function, especially in something as this large of an organization, but making sure there are multiple controls in place to try to catch some of this at a much earlier time period rather than for it to go on for that many years.

A lot of the third parties involved with this, and, Emily, you may have seen this as well, where those executives were involved with it. It's interesting if you go back and look, could this somehow have been caught a little bit earlier with some due diligence? We don't know right now, but it's something that came to light in 2019 and is obviously one of the top most scandalous frauds.

Emily: And costly.

Bruce: And costly when you look at it, absolutely. A lot of people affected by this, not just shareholders, but obviously these businesses here in the United States, those in Europe and obviously in Africa. Huge.

Emily: While we are global, should we stay global for the next fraud scheme, the number-four fraud?

Bruce: Yes. That one's in South Africa and other parts. I think the one that you're going to talk about really goes beyond just a couple of countries but some ones that are really on a lot of people's radar for a number of reasons. I'll let you talk about that one, Emily.

Emily: Before I get into our fourth case, just a friendly reminder to engage with us on Facebook. Get into the comments section. Leave some questions. We have a team here that's working to answer them for you, so we love to hear from you guys.

Now, I will unveil our number four fraud case, which is the U.S. charges Chinese telecom giant Huawei with fraud and stealing trade secrets.

Now this one, Bruce, I thought was really fascinating because it seems so complicated in nature, and there's a lot of different moving pieces. The first time I read it, I stopped and went "huh" and really had to get into it to do my write-up because it involves, like you said, multiple countries: the U.S., Canada, Iran. I feel like there's one more. Is that correct? The U.S., Canada, and Iran are the major ones.

Bruce: China.

Emily: China, of course! Basically, what happened is the U.S. authorities charged the telecom giant and smartphone maker Huawei with nearly two dozen criminal charges and sought extradition of Huawei's chief financial officer from Canada. She's in British Columbia, but the business is in Canada. The reason that they fell onto the radar is because authorities claim that Huawei misled the U.S. government about the company's business in Iran, which is under U.S. economic sanctions since 2018. The indictment alleges that Huawei misled the U.S. and a global bank about its relationship with two subsidiaries, Huawei Device USA and Skycon Tech, to conduct business in Iran.

Bruce: But there's more.

Emily: Yes, there's more. A second indictment alleges that Huawei stole technology from T-Mobile, which is a U.S. phone company.

Bruce: Yes, based out of Germany.

Emily: Based out of Germany.

Bruce: Yes.

Emily: They used the technology to test smartphone durability; plus, they obstructed justice and committed wire fraud, which Huawei says was settled in a civil case back in 2014, but it's coming up with all of this. Huawei's chief financial officer has been charged with wire fraud, bank fraud, conspiracy to commit bank fraud and wire fraud in relation to skirting American sanctions in Iran. It's really convoluted, and multiple parties are involved.

Bruce: This has got a Hollywood—

Emily: It does.

Bruce: —type of appeal to it because you've got, obviously, politics involved with it when you've got extradition between the United States, Canada and China, and those issues playing out. And then Iran as well, and then when you look at it beyond just that type of intrigue, but then you have the stealing of those secrets. I can imagine certain individuals in Hollywood playing out a lot of these roles, maybe not Aunt Becky.

Emily: She might be in jail then.

Bruce: When you start looking at how that's...it's fascinating in a bad way nonetheless, but still, it's fascinating how this has come to light.

Emily: It reminds me of one of our top frauds last year, the 1MDB scandal. Gosh, that could be a Hollywood movie all on its own with all of the characters involved there.

Bruce: I'm sure it will be one day. This one's really, really fascinating because again of just...you wake up the next morning, you hear the news of this very, very large organization to which some of you may actually have those mobile devices. You may be watching it on that mobile device right now. It's incredible the size of this particular fraud.

Emily: It's not over yet. Canada's holding Huawei's chief financial officer. I guess the next hearing is scheduled for March 2020, I believe, so still some time for this to play out and maybe other interesting stories to come to light.

Bruce: Absolutely.

Emily: All right, I'll let you close this down with the fifth fraud.

Bruce: All right, our fifth one, our last one for the top five most scandalous frauds of 2019 with over \$1 billion, nearly \$1.7 billion Medicare fraud here in the United States, also called Operation Brace Yourself. We had Operation Varsity Blues earlier, so it's good to round out with another operation by the Justice Department. This one involved 24 different defendants, over 80 search warrants, and 17 different districts with strike forces in the health care fraud here in the United States, but it's got an international appeal as well. What happened in this particular case, you have a targeted group, elderly, those who are disabled, who need some type of durable medical equipment. This could be a neck brace, braces for other parts of the body as well.

Emily: An arm sling for surgery.

Bruce: Arm slings, yes. What happened is you've got these telemedicine groups who were fraudulent working outside the U.S., I believe in Southeast Asia and Latin America, who were using doctors and giving them kickbacks in order for them to refer Medicare patients too. Again, a lot of these are elderly. When you look at elder fraud in general, it's very, very pervasive, and it's just very, very wrong on a number of levels.

Emily: I think every year the amount lost in elder fraud becomes the most lost. Every year, it's more and more.

Bruce: You've got people who can't take advantage of being able to look at *Fraud Magazine* or perhaps get a fraud examiner in because they've got someone who called them up and said, "You definitely need this." If they're in their 70s or 80s and dealing with a lot of medical issues already and they hear this and go, "Okay, yeah, I guess they're trying to help me. They wouldn't have called me out of nowhere." It *does* impact them because even though it's nearly \$2 billion as it costs the federal government and the taxpayers in the United States, but now these people whose identities were used to get this, in a year, if they actually do need that, they're going to have a problem. They've got a lot of paperwork.

It's just like anyone else suffering from identity theft. Now, they've got to go through the process of trying to clear their name in order to get the medical attention that they need. The victimization of this is even larger than the over-billion-dollar fraud that it had within the United States and the government. It's just what the impact is on that. Your thoughts on this is just really, really sad. They're all sad, but this one because of just how it impacts someone's health and them being able to do what they need to just to survive.

Emily: When fraudsters target the vulnerable, you know, set up social security numbers using children's names, thus ruining their credit for the future, and fraud schemes that impact the elderly, romance scams, phishing scams...they all feel exceptionally dirty because these people, they need someone to defend them. Oftentimes, they're stuck in situations where they don't have that somebody that could have prevented this from happening to them in the first place. It's definitely one of the harder-to-stomach fraud schemes.

Bruce: Absolutely. When you look at the number of defendants in this particular case, when you see those early-morning search warrants, a lot of times you're thinking that this is some violent criminal that happened to do it, but these are doctors who are involved with this. In fact, there was one within the indictment. This person lived somewhere in the Midwest. It was a doctor in Florida that was part of the scam that never even met — maybe he had a quick phone call, if even that, over the phone with them.

Yet, here's thousands of dollars' worth of equipment that they don't need in order for that person to get a kickback and for these telemedicine groups to take advantage of not just the government and Medicare, but really just those who, as you were saying, Emily, the most vulnerable of us all.

Emily: Unfortunately, we end on a sad note.

Bruce: Ending on a sad note but these are the most five scandalous frauds we've unveiled here today. Again, as Emily mentioned, if you go to Fraud-Magazine.com on January the first, you'll get to read a lot more about it, and perhaps they're some other links within there as well.

Emily: Yes, there are. There are links within the story that can take you to other sources that I used to put together these stories where you can read more about each fraud scheme. Like we mentioned at the beginning, there will be dishonorable mentions. We have some other fraud schemes that were worth mentioning but maybe didn't quite make it to the top of the list.

Bruce: Even those who are watching this on Facebook right now, if there's something that you didn't see after January 1, or you're listening right now, you may want to put that into the comment section. So many people read this, so we'd want to bring as much as we can to light through the comment section. Please make sure to [share] what impacted you in your region the most, add that in there for the rest of the fraud examination field to look at and to know about as well.

Emily: Definitely.

Bruce: All right, thanks again, Emily for being a part of this. Thank you for watching. Go to Fraud-Magazine.com and look at that story on January the first.

Emily: Please do. Thanks.

Bruce: Bye-bye.