

Busted! CPAs and Law Enforcement Take On New Jersey's White-Collar Criminals

COMPILED BY MILES Z. EPSTEIN
EDITOR, COMMERCE

TODAY'S CON ARTISTS ARE MORE SAVVY AND sophisticated than ever, engineering everything from slick online scams to complex stock and healthcare frauds. Forensic accounting rather than fingerprints is catching the crooks. The majority of corporate fraud cases pursued by the FBI involve accounting schemes designed to deceive investors, auditors and analysts about the true financial condition of a corporation.

COMMERCE asked New Jersey's top CPA firms for examples of how their accountants are catching white-collar criminals and helping law enforcement to put the offenders behind bars. Here are their stories:



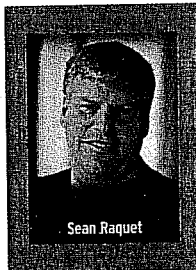
Amper, Politziner & Mattia, LLP

By Hubert Klein, CPA/ABV, CVA, CFE, CFF
Partner, Litigation & Valuation Group

We were contacted to investigate and document a suspected fraud perpetrated by the CEO of a local company. Our investigation focused on reviewing expense reports, company credit card transactions, and bank account activity and compensation arrangements for the CEO. Our investigation found that the CEO was well-liked and respected. As a result, he had full control of the financial reporting functions of the company. There was a lack of segregation of duties and the CEO was able to circumvent the controls that were in place. This resulted in the CEO diverting company funds for personal use. The scheme was simple: he submitted fraudulent expense reports, reimbursed himself several times for the same expenditure and diverted money to his personal bank account by wire transfer. He also manipulated payroll records and gave himself unauthorized raises. Not until the recent economic crisis reduced business cash flow was his activity questioned. When he refused to answer questions posed by management, Amper's Fraud Team was hired. Our investigation revealed that over \$3 million was diverted in a two-year period. After our investigation was completed, we were able to help management design stronger internal control procedures to help prevent this from happening again.



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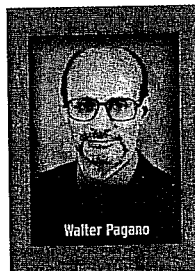


Bederson & Company LLP

By Sean Raquet, CPA, CFE
Partner

Among the many white-collar crimes our forensic work has uncovered, quantified and in essence, stopped, the bankruptcy case of Strategic Technologies is a blatant example of how I assisted in solving such a crime and prevented its perpetuation.

In this case, our team was contacted by the Chapter 11 Trustee to serve as financial advisors. Based on our findings, it was recommended the bankruptcy be converted from a Chapter 11 to Chapter 7, thus averting the continuation of massive fraud. As a freight bill auditor, Strategic Technologies audited freight bills for third parties for Fortune 100 companies. Through our analysis, we discovered fictitious invoices which were paid using customers' money. Our analysis also uncovered an unreconciled bank account containing \$3 million. In its heyday, the account had \$100 million running through it each month. None of this money was ever accounted for by the company. Over the course of 12 years to 15 years, the owner had stolen more than \$80 million. Had we not been retained, the company would have continued to operate in this fashion, stealing millions of customers' dollars from Fortune 100 companies such as Toyota, Bridgestone-Firestone, Barnes and Noble and ExxonMobil.



Eisner LLP

By Walter Pagano, CPA/CFE, CFE
Partner-in-Charge, Litigation
Consulting & Forensic
Accounting Group

White-collar crimes committed by fraudsters usually involve financial chicanery. The perpetrators who commit financial crimes are in positions of trust, have unfettered access to a victim's checkbook and its

continued on page 50

How We Beat a New Jersey Ponzi Scheme

"Using our investigation as well as information developed by the FBI and the SEC, the U.S. Attorney was able to achieve convictions of the defendants without the necessity of lengthy trials."

BY MATTHEW SCHWARTZ, CPA/CFF, CIRA, CFE, MBA,
AND SHARI HARTSTEIN, CIRA
BEDERSON & COMPANY LLP



NJ AFFORDABLE HOMES Corp. (NJAH) was an entity established in 1992 for the stated purpose of investing, rehabilitating and selling homes in various communities in New Jersey. In 1995, after receiving complaints and determining that NJAH was not fulfilling its required reporting obligations to investors, the Securities and Exchange Commission was granted a Temporary Restraining Order and a receiver was appointed to investigate the affairs of NJAH. Shortly after his appointment, the receiver retained us as his accountants and financial advisors.

We immediately went to NJAH's office and began our investigation. Within two weeks, we had confirmed that the numerous related entities involved in this matter were commingling funds. We made two other initial determinations: (1) many of the related entities were formed immediately after the Internal Revenue Service filed a levy on NJAH's bank accounts, with apparently no valid business purpose; (2) investor funds and property sale closings were deposited into different accounts with no apparent business purpose for the differentiation. Additional evidence of commingling included rent checks payable to one entity being deposited in bank accounts in the name of separate related entities. Funds were transferred back and forth between the different entities with no record of the purpose for the transfers, even into entities established (per NJAH's personnel) for specific purposes unrelated to the transfer of funds.

Evidence of the lack of proper accounting procedures included the lack of agreement among the various entities as to the inter-company balances. For example, the internal records indicated Entity A owed Entity B \$780,000 as of a particular date, whereas entity B showed it was owed \$910,000 by entity A as of the same date. One former employee indicated to us that the inter-company accounts had never been reconciled. We also discovered that bank accounts in the name of certain entities were included in the internal accounting records of different entities.

NJAH's handling of internal operations further demonstrated the commingling of funds in that expenses of various entities were sometimes paid by the entity incurring the expenses and at other times paid by other related entities.

Perhaps most compelling was our determination that of the more than 200 various purported investments held by NJAH and related entities, funds used to pay the mortgages were paid by the various related entities with no attempt to match the source of the payments to the mortgages being paid. Even more extreme, the entity paying the mortgages would in many cases have received funds from yet a different related entity in order to make the payment. Although investors were led to believe they were owners of certain properties, our tracing of the funds revealed that—in many cases—their invested funds could not in any way be traced to the properties they were told they owned.

There was no attempt to account for invested funds, property management funds (i.e. rent and expenses related to a particular property) or closing proceeds on a property-by-property basis. In fact, in most cases, when investors deposited funds with NJAH, the money was simply commingled with other funds and transferred across the various entities for no apparent business purpose, but rather was used to prop up the business and pay out other investors in a classic Ponzi model.

With six years worth of tax returns showing an accumulated loss of \$60 million together with all our documentation and evidence that the operation had not been self-sustaining, we issued a report to the receiver, ultimately resulting in his determination to put the entity into a Chapter 7 proceeding.

Using our investigation as well as information developed by the FBI and the SEC, the U.S. Attorney was able to achieve convictions of the defendants without the necessity of lengthy trials. ■

Bederson & Company Partner Matthew Schwartz, CPA/CFF, CIRA, CFE, MBA, and Manager Shari Hartstein, CIRA, received medals and recognition from the FBI for their role in unraveling a New Jersey Ponzi scheme. For more information, visit www.bederson.com.

