

A black and white photograph of two hands shaking in a firm grip, symbolizing a business deal or agreement. The hands are wearing suit sleeves.

GBQuarterly: Ripped from the Headlines - Top Frauds

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Speakers



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Agenda

- Welcome and overview
- Level setting about fraud, criminal process and sentencing
- Real life examples
- What happened
- How did they get caught
- What can we learn?
- Recap and questions



Goals and Objectives for Today

Generally speaking, there are two kinds of learning: experience, which is gained from your own mistakes and wisdom, which is learned from the mistakes of others.

~John C. Maxwell

Have fun!
Use real life frauds,
by real life people
to learn from
their mistakes!



Updates from the ACFE

PERPETRATORS

Owners/executives committed only 23% of occupational frauds, but they caused the largest losses



Nearly half of all occupational frauds came from these four departments:



85% of fraudsters displayed **BEHAVIORAL RED FLAGS** of fraud



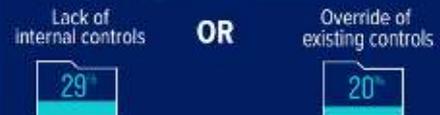
Only 6% of perpetrators had a prior fraud conviction

ANTI-FRAUD CONTROLS

The presence of anti-fraud controls is associated with



Nearly **HALF** of cases occurred due to:



81% of victim organizations **MODIFIED** their anti-fraud controls following the fraud.



Increased management review procedures



Increased use of proactive data monitoring/analysis

CASE RESULTS



of perpetrators were terminated by their employers



of cases were referred to law enforcement



of cases referred to law enforcement resulted in a conviction



of organizations that didn't refer cases to law enforcement cited internal discipline as the reason

What Do They Get Charged With?



Plea Deals & Sentencing

- Plea Deals
 - ✓ Have to be disclosed in open court
 - ✓ May result in some charges dismissed, pleading to others
 - ✓ Can either include a sentence or look to the court
- United States Federal Sentencing Guidelines
 - ✓ Published by US Sentencing Commission
 - ✓ Uniform policy for sentencing for felonies and serious misdemeanors (not less serious charges)
 - ✓ Determines sentence based on two factors:
 1. Conduct associated with the offense
 2. Defendant's criminal history
 - ✓ 43 offence levels

Sentencing Table

SENTENCING TABLE
(in months of imprisonment)

Offense Level	Criminal History Category (Criminal History Points)					
	I (0 or 1)	II (2 or 3)	III (4, 5, 6)	IV (7, 8, 9)	V (10, 11, 12)	VI (13 or more)
1	0-6	0-6	0-6	0-6	0-6	0-6
2	0-6	0-6	0-6	0-6	0-6	1-7
3	0-6	0-6	0-6	0-6	2-8	3-9
4	0-6	0-6	0-6	2-8	4-10	6-12
5	0-6	0-6	1-7	4-10	6-12	9-15
6	0-6	1-7	2-8	6-12	9-15	12-18
7	0-6	2-8	4-10	8-14	12-18	15-21
8	0-6	4-10	6-12	10-16	15-21	18-24
9	4-10	6-12	8-14	12-18	18-24	21-27
10	6-12	8-14	10-16	15-21	21-27	24-30
11	8-14	10-16	12-18	18-24	24-30	27-33
12	10-16	12-18	15-21	21-27	27-33	30-37
13	12-18	15-21	18-24	24-30	30-37	33-41
14	15-21	18-24	21-27	27-33	33-41	37-46
15	18-24	21-27	24-30	30-37	37-46	41-51
16	21-27	24-30	27-33	33-41	41-51	46-57
17	24-30	27-33	30-37	37-46	46-57	51-63
18	27-33	30-37	33-41	41-51	51-63	57-71
19	30-37	33-41	37-46	46-57	57-71	63-78
20	33-41	37-46	41-51	51-63	63-78	70-87
21	37-46	41-51	46-57	57-71	70-87	77-96
22	41-51	46-57	51-63	63-78	77-96	84-105
23	46-57	51-63	57-71	70-87	84-105	92-115
24	51-63	57-71	63-78	77-96	92-115	100-125
25	57-71	63-78	70-87	84-105	100-125	110-137
26	63-78	70-87	78-97	92-115	110-137	120-150
27	70-87	78-97	87-108	100-125	120-150	130-162
28	78-97	87-108	97-121	110-137	130-162	140-175
29	87-108	97-121	108-135	121-151	140-175	151-188
30	97-121	108-135	121-151	135-168	151-188	168-210
31	108-135	121-151	135-168	151-188	168-210	188-235
32	121-151	135-168	151-188	168-210	188-235	210-262
33	135-168	151-188	168-210	188-235	210-262	235-293
34	151-188	168-210	188-235	210-262	235-293	262-327
35	168-210	188-235	210-262	235-293	262-327	292-365
36	188-235	210-262	235-293	262-327	292-365	324-405
37	210-262	235-293	262-327	292-365	324-405	360-life
38	235-293	262-327	292-365	324-405	360-life	360-life
39	262-327	292-365	324-405	360-life	360-life	360-life
40	292-365	324-405	360-life	360-life	360-life	360-life
41	324-405	360-life	360-life	360-life	360-life	360-life

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The Cases

James T. Hammes

- 54, formerly of Lexington, Kentucky
- Length of fraud – 1998 – February 2009
- Total fraud: \$8.7M stolen from G&J Pepsi-Cola Bottlers Inc.
- His role: Controller of the company and responsible for supervising accounts payable to vendors
- Scheme: Phantom vendors. Manipulated monthly account reports. Used a misc. account to charge off fraudulent checks. Manipulated legitimate accounts to offset the amounts carried in the “misc. account”



James T. Hammes

- Resulted in getting a 1099R on which he paid taxes! To the tune of \$2.7M (using the stolen funds of course)
- He did fail to file for several years.
- Questioned in 2009
- Fled and spent 6 years as a fugitive hiking the Appalachian Trail and living under an alias. (Wife divorced him while he was on the lam!)
- Arrested in May 2015 – a fellow hiker saw him on a news story.



WANTED

BY THE FBI

Wire Fraud; Money Laundering

JAMES T. HAMMES



Photograph
taken in 2008

DESCRIPTION

Date(s) of Birth Used:	April 30, 1962	Hair:	Brown
Place of Birth:	Wisconsin	Eyes:	Brown
Height:	5'8"	Sex:	Male
Weight:	195 pounds	Race:	White
NCIC:	W966130479	Nationality:	American
Occupation:	Accountant		
Scars and Marks:	None known		
Remarks:	Hammes is an avid scuba diver and a licensed pilot. He has previously traveled to the Caribbean and Curacao.		

James T. Hammes

- 96 months in prison
- Pleaded guilty in October 2015
- one count of wire fraud
- Agreed to pay nearly \$7.7 million in restitution, specifically, approximately \$6.7 million to G & J Pepsi-Cola Bottlers, Inc. and \$1 million to Cincinnati Insurance Company.
- In a cooperative investigation by the FBI and the IRS-Criminal Investigation Services and the US Marshal.



James T. Hammes

- Agent Jonathan Jones – one of the investigators pointed out to a reporter:
- Hammes did not appear to have a gambling problem or a drug addiction, which often explains why people embezzle money.
- “I think he was just greedy,” he said. I think he just wanted a lifestyle that his current position couldn’t afford him. He was an outgoing guy. People liked him,” Jones added. “But it’s obvious by his actions he didn’t care about anyone but himself.”



James T. Hammes – Key Takeaways

- Missing one of the “usual” factors (i.e., gambling, “Need” etc.)
 - ✓ We talk a lot about “red flags” – he would not have had one of the key flags. But it would appear he was living a much larger lifestyle, that should have been the warning
 - ✓ His “need” was apparently greed and a bigger lifestyle
- Common Vendor Scheme
 - ✓ Must have been a breakdown, over-ride or lack of controls around new vendors set up
 - ✓ Clearly a lack of oversight on the general ledger as well
- Timing of the interview is critical
 - ✓ Cannot be sure that they did anything “wrong” but had they had their evidence and were ready to interview and arrest him, he would not have had the opportunity to get away.
 - ✓ Coordinating with law enforcement can be critical.

Behavioral Issues



Fraud Triangle



Angelia Zwick

- AKA Anglia Strunk
- 47 of Cincinnati
- Length of Fraud: from approximately July 2009 through May 2013
- Employer: Sheakley Group, Inc.
- Scheme: Embezzling funds.
 - ✓ Zwick wired the stolen funds from her employer's bank account to a bank account for Amerihealth and Life Solutions, LLC, a company owned by Zwick. Took more than \$328,000 of workers' compensation refunds intended for her employer or its clients and diverted those refunds into bank accounts that she controlled.
 - ✓ False income tax returns with the IRS for the 2010, 2011 and 2012 income tax years - owes \$121,810 in additional income taxes.
 - ✓ 2010 - failed to report as income the funds she embezzled from her employer.
 - ✓ 2011 and 2012 - claimed false expenses for Amerihealth.

Quote from the IRS Agent

- February 8, 2018 Press Release

“We are early in this year’s tax filing season and this case should serve as a reminder that no matter what the source of income, all income is taxable, even stolen money,” said Ryan L. Korner, Special Agent in Charge, IRS Criminal Investigation, Cincinnati Field Office.

Angela Zwick

- Convicted of one count of wire fraud and one count of willfully filing a false income tax return
- 21 months in prison
- Ordered to pay \$329,000 in restitution to Sheakley Group, Inc. and its insurers and nearly \$122,000 in restitution to the IRS
- Investigation of this case by the IRS and U.S. Secret Service, and Assistant U.S. Attorney Timothy Mangan

Angela Zwick – Key Takeaways

- Not always sophisticated
 - ✓ She was simply wiring money to her company's account
 - ✓ Had to be a breakdown in the Vendor controls as well
- How could this have been avoided?
 - ✓ Vendor management control review
 - ✓ Wire transfers require dual authentication and proper documentation
 - ✓ Period review of vendors to look for employee overlap

Cheryl M. Zambori

- 50 years old, St. Clairsville, Ohio
- Employed as a Finance Manager at Litman Excavating, Inc. in New Martinsville, West Virginia.
- Fraud began in July 2016 (note, not resolved until April 2022)
- Scheme: Transfer funds to her personal bank account which was held out of state.
- Pled guilty to one count of wire fraud
- Restitution in the amount of \$317,290.53 and sentenced to 27 months in jail.
- Note: That she took a plea deal in this matter – facing up to 20 years of incarceration and an additional fine of \$250,000.
- Interesting about this one is that the USPS Inspection Service is who investigated the matter.
- Implies that she was likely simply mailing herself checks.
 - ✓ Breakdown in the vendor controls.
 - ✓ Very common scheme

Robert M. Vanderhorst

- 63
- Employee at Clark County Auditor's office
- Worked there since 1991
- Theft was from 2005 – 2021
- He served as a deputy auditor for real estate and later as deputy auditor for bookkeeping
- Vanderhorst left the county auditor's office for two years between 2003 and 2005
- From 2013 through 2015, Vanderhorst was part of the team that implemented technology solutions to make the auditor's office more efficient.
- The new system, in fact, is meant to make fraud more difficult
- Because thefts pre-dated the software upgrade, the fake vendor account was hardwired into the old system and ported over to the new system allowing his criminal activity to continue



Robert M. Vanderhorst

- Pleaded guilty in Clark County Common Pleas Court to two felony counts of theft and theft in office from 2005-2021
- Total was \$1.8 million in theft
- Similar to others – lack of controls over vendors and AP



AP/Vendor Controls – Best Practices

- Separation of duties.
- Reviewing your approval process.
 - ✓ Purchase order approvals
 - ✓ Invoice approvals
 - ✓ Payment authorization
- Implementing strong payments solutions (positive pay)
- Vendor file review
 - ✓ Regular checks for vendor names
 - ✓ Looking for vendors whose spend has increased
 - ✓ Ones that no one knows
 - ✓ Related parties
 - ✓ Addresses the same as employees

What Have We Learned?

- Simple can be quite effective
- Accounts payable and simply sending money seem to be prevalent.
- These frauds went on for a long time.
- Basic reviews of internal controls could have stopped/caught many of these
- Be thoughtful about when you question the suspect or they may go hike the Appalachian Trail!
- The IRS has a lot of resources! And they will go after you.

Questions



Resources

- **Upcoming Events:**

- Join our Tax & Business Advisory Services team on December 6th and 7th as they explore year-end tax planning strategies and trends for [individuals](#) and [businesses](#).

- **Resources:**

- [How To Share Your Nonprofit's Values And Limit Fraud Losses](#)
- [Commission Fraud: When Salespeople Get Paid More Than They've Earned](#)
- [Visit us online](#) for all Forensic and Dispute Advisory Services news and updates.



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