



Welcome to Western CPE's

Presentation of:

Fraud Schemes: How & Why They Work

Presented by:

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Crab Orchard Utility District

A Mother and Daughter Affair

Let's give ourselves a bonus

- Mother - \$129,000
- Daughter - \$50,000+

Unauthorized Payroll Checks

- Mother - \$29,000+

Crab Orchard Utility District

Overpayment for unused leave

- Mother - \$14,000
- Daughter - \$5,000

Need a Jeep?

- Blue Book trade-in value of \$11,900
 - Received \$534.94
 - Sold to daughter's friend for \$2,000
 - Titled to daughter – Drove it for several years
 - Later sold it for \$6,000

Crab Orchard Utility District

How about a good backhoe?

- Traded in for credit of \$5,000
 - Had a trade-in value of \$15,000
 - Manager's husband bought for \$5,000

Water's free for me

- Unmetered yard hydrants for both mother and daughter and a few other friends and commissioners

Crab Orchard Utility District

Can You Say “Kickback?”

- \$53,000

End Results

Mother and daughter both indicted for:

- Conspiring to commit theft over \$60,000
- Theft over \$60,000

Crab Orchard Utility District

- Two Counts – Money Laundering
- Forgery over \$60,000 (\$345,346)
- Official Misconduct

Crab Orchard Utility District

Update

Both Jewell Harris and her daughter, Tonya, pled guilty.

Tonya agreed to serve 90 days in jail and 8 years of supervision with the first 2 to be intensive.

Crab Orchard Utility District

In her initial screening, her blood tested positive for the following drugs:

- Benzodiazepam (Valium)
- Methamphetamine
- THC (Animal Tranquilizer)
- PCP (Animal Tranquilizer)
- Opiates
- Cocaine

Crab Orchard Utility District

Her current medications are:

- Prozac
- Restoril
- Valium
- Depakote
- Zantac

Crab Orchard Utility District

She also acknowledged to the judge that she used Hydrocodone, Tylox, cocaine, crack, methamphetamine, and marijuana.

She agreed to the 90-day sentence on a Wednesday. The judge ordered her to report to the jail by 5:00 p.m. the following Monday. She only had one question?

Crab Orchard Utility District

Will I be drug tested upon reporting in?

Crab Orchard Utility District

On Wednesday, June 7, 2006 Jewell Harris was sentenced to serve 10 years in one of the two prisons for women in Tennessee.

Her defense attorney presented 10 to 12 mitigating circumstances for the judge to consider in determining the sentence.

The judge determined that there were no mitigating circumstances.

Crab Orchard Utility District

The state suggested several enhancing circumstances.

The judge agreed with all enhancements.

She has stated that she intends to appeal the sentence.

The City of Rockwood—The Players

- Howard Butler, City Recorder and City Judge for 30 years
- David Woods, Parks & Rec. Director

The City of Rockwood—The Players

- William H. Cisson, a friend of Howard Butler
- Robert (Bobby) Cox, Jr., a friend of William Cisson

The City of Rockwood— What Happened?

- Butler misappropriated at least \$425,681.59
- Butler issued and cashed 272 unauthorized checks totaling almost \$423,000
 - The bank has a problem

The City of Rockwood— What Happened?

- Additional \$11,000 unaccounted for
- Additional checks totaling \$12,400 issued to and cashed by David Woods, Parks & Rec. Director

The City of Rockwood— Why Did it Happen?

- Total lack of segregation of duties
- Unnumbered checks were made out and cashed and proceeds used to pay:

The City of Rockwood— Why Did it Happen?

- Employee Christmas bonuses
- City fireman pay for in-service training and in lieu of compensatory time

The City of Rockwood— Why Did it Happen?

- Collections not properly reconciled and reports not properly prepared
- Cash over/under not recorded

The City of Rockwood— Why Did it Happen?

Blind Trust

#1 Internal Control Weakness

The City of Rockwood— Issued Findings Related to:

- Inadequate separation of duties
- Disbursements not made by prenumbered checks
 - \$60,000
 - To avoid IRS taxes

The City of Rockwood— Issued Findings Related to:

- Improper petty cash procedures
 - Disbursed \$58,600 with support for \$11,600

The City of Rockwood— Issued Findings Related to:

- Inadequate internal controls for receipt of mail
- Inadequate receipt records
 - Parks & Recreation
 - Room rental, accident reports, employee loans

The City of Rockwood— Issued Findings Related to:

- Business licenses
- Airport receipts
- Building permits
- General fund, property tax, and sanitation receipts—no indication as to cash or check

The City of Rockwood— Issued Findings Related to:

- No indication on general fund receipts as to date deposited
- Collections not deposited intact and promptly—used as petty cash and to cash checks, pay lifeguards

The City of Rockwood— Issued Findings Related to:

- Deposit slips not properly completed and some deposit slips not retained
- Inadequate controls over traffic citations and court docket
 - Case dispositions often not recorded

The City of Rockwood— Issued Findings Related to:

- Traffic citations not properly accounted for
- Receipts for court collections did not include applicable ticket number
- Judge did not sign record of dispositions

The City of Rockwood— Issued Findings Related to:

- Inadequate controls over parks and recreation department collections
 - Failure to use duplicate or prenumbered receipts
 - Failure to maintain record of source of revenues related to sporting events

The City of Rockwood— Issued Findings Related to:

- Use of park cash collections to purchase concession supplies and pay lifeguards
- City maintained over 20 bank accounts
- Lack of accounting of vending machine revenues

The City of Rockwood— Issued Findings Related to:

- No Cash Receipts Journal
- No Cash Disbursements Journal
- Loaned city employees money
- Over \$1.1 million in noninterest bearing accounts

Hixon Utility District

- Mr. William “Bill” Beene, General Manager since 1955, employed by the district for 37 years
- Sitting District Commissioners had served for 32, 20, and 18 years

Hixon Utility District

- The Auditors – James B. Frost & Co.

The Chain of Events

- In August, auditors notified us that the manager had withdrawn more than \$1,000,000 from the general operating fund

Hixon Utility District

- Previous year, \$446,000 (of which \$221,000 was authorized)

Hixon Utility District

- “The Agreement”—First time-
Second time
- Nine checks totaling \$1,075,000
 - One CD for \$100,000
 - Seven cashier’ s checks payable to Merrill Lynch

Hixon Utility District

- One check paid off a note for Mr. Beene in the amount of \$212,765 and deposited \$6,234 into personal account
- Commissioners were “surprised”
 - At this time, our office was contacted
 - Checks required only one signature

Summary

- \$397,765 used to pay personal bank notes
- \$450,000 used to purchase cashier's checks payable to Merrill Lynch
- \$100,000 purchase of CD
- \$6,234 deposited into checking account

Other Tidbits of Information

American Waterworks Association's Annual conference

- Annual conference was in Dallas in 1984
 - Two Commissioners and their wives, along with Mr. Beene and Mrs. Pangle and Mr. Walker (the independent auditor) and his wife all attended the conference

Other Tidbits of Information

- After the conference in 1984, all parties stopped over in Las Vegas for 3 days and stayed at the MGM Grand Hotel
 - Total bill: \$14,479 plus \$8,829 airfare
 - Plus \$1,000 “Walking Around Money”
- In 82, Miami/Jamaica
 - \$11,546 plus airfare of \$7,240
 - Plus \$5,000 “Walking Around Money”

Pangle Construction Company

- Owned by husband of Mrs. Pangle, Administrative Assistant for Mr. Beene
- In charge of all construction for Hixon Utility District
- Contract last bid out over 10 years ago
- Everybody was happy

Pangle Construction Company

And the Rest of the Story...

Payback:

- \$50,000 Cash
- Sold “the Lake House”
 - Two lots bought from the Pangles
 - Deed was never recorded
 - House was built on lots

Pangle Construction Company

All telling quote from one of the Commissioners:

“When I saw it (the withdrawals) I knew immediately there was going to be a problem as to how to present it. We went into several meetings and tried to reconstruct and to put back in place the things that had happened, so that we were not exposed.”

My Favorite Frauds and How They Occurred

And the rest of the story

My Favorite Frauds and How They Occurred

**Let' s All Go To School
(Because It' s A Great Place To Steal)**

Fayette-Ware High School

Fayette County Schools

Fayette-Ware High School

Fayette County Schools

Vending Machine Revenues

- Per analysis of snack vending machine purchases vs. sales, 3 year shortage of \$28,560 (Guess who took care of the vending machines!)
- School supply vending purchases: \$1,792, Deposits: \$142

Fayette-Ware High School

Fayette County Schools

- Spanish Club fundraiser collections were \$1,166 less than projections.
 - Total collections were less than the cost of the items sold, resulting in a \$771 loss
- Concession revenue from Holiday Basketball Classic tournament was not deposited

Fayette-Ware High School

Fayette County Schools

- Ticket sales revenue from one freshmen basketball game was not deposited
- School revenues and expenditures were either not recorded or were improperly classified in the school's books and records

Fayette-Ware High School

Fayette County Schools

- Prenumbered receipts not issued
 - Most collections were remitted directly to the principal – bookkeeper was located in another building
- Some student activity funds had deficit fund balances

Fayette-Ware High School

Fayette County Schools

- Over 1,500 tickets were unaccounted for during the 1992-93 and 1991-92 school year
- Concession receipts were not counted or receipted prior to being turned in for deposit

Fayette-Ware High School

Fayette County Schools

- Student activity funds were used to purchase a Christmas advertisement in the local newspaper, an advertisement in the “Police Combat Shooter,” and tickets for a secretary’s luncheon/fashion show, as well as donations to local charities

Fayette-Ware High School

Fayette County Schools

- More free meals were claimed as being served than the number of eligible students attending school

The report contained a total of 25 findings, of which the principal did not concur with 8.



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The City of Dresden

The City of Dresden

Loans given to private interest

- Businessman told the city officials that he needed a building
- City said OK
- Businessman hired the contractor
- (No bids)

The City of Dresden

- Businessman presented construction bills to city which they paid
- At the end of construction, he signed a promissory note for \$662,445
- First payment was due in May, our report was issued in August – No payment had been received

The City of Dresden

- Mayor and Board voted to lend \$125,126 of city funds to pay the medical school expense incurred by two doctors
- In addition, they also transferred title of property owned by the city in exchange for a \$100,000 promissory note

The City of Dresden

- In both instances, the debit would be forgiven over 5 years for each year the doctors practice in Dresden
- The Mayor and Board also approved loaning city fund to pay the medical school cost of a student who was the daughter of a board member

The City of Dresden

- As of the date of our report, the loan amount was \$94,500
 - Subsequent to the issuance of our report, the city loaned an additional \$10,000 to the student
 - The same 5-year forgiveness clause was in the loan agreement

The City of Dresden

- City personnel collected scrap metal and sold it to a local salvage yard and did not deposit the proceeds into a city bank account
 - Quote from a board member: “This has been going on for 22 years. We tried to adopt policies and procedures, but it never left the board room.”

The City of Dresden

Closing comment from one alderman:

“The mayor has said we were the dumbest board he had ever seen. I guess we were for believing all this time he was working within the law.”

The City of Dresden

- During the period covered by our report, including the time the Mayor and Board responded to our findings, the Mayor was an employee of the Municipal Technical Advisory Service with the responsibility of advising municipalities how to maintain their financial records and comply with state laws.

Granbery Elementary School Parent-Teacher Organization

The Subject

- Ms. Julie Buchanan, Co-President
 - Her children had graduated from the school several years ago and she was still working in the school's PTO - ?????????

Granbery Elementary School Parent-Teacher Organization

- Diverted more than \$140,000 in PTO funds for her personal use
- Issued a check made payable to Helen Grace Choc. Co Innisbrook for \$3,250 which was deposited into her personal bank account

Granbery Elementary School Parent-Teacher Organization

- Opened at least 4 additional (unauthorized) bank accounts in the PTO's name
- Diverted \$1,562 in funds she solicited to help pay the medical bills of a terminally ill 5th grader to her personal bank account

Granbery Elementary School Parent-Teacher Organization

- Lost a deposit bag containing \$25,000 in cash
 - She said that she must have thrown it away in the trash
- Issued at least 150 checks to herself for which she could not determine any legitimate or authorized purpose

Granbery Elementary School Parent-Teacher Organization

- Forged the second signature on checks at least 100 times
- Altered numerous receipts by photocopying them
- Submitted false medical documents to the court
 - Including a 5 page letter from her former doctor

Granbery Elementary School Parent-Teacher Organization

- When she was removed from her position as co-president of the PTO, it was discovered that there were unrecorded liabilities of at least \$45,000 and a bank overdraft of \$7,343

Granbery Elementary School Parent-Teacher Organization

- She pled not guilty and requested, and was granted, two trial postponements
- After the judge denied the request for a third postponement, she changed her plea to guilty
 - The judge was not happy

Granbery Elementary School Parent-Teacher Organization

- In her elocution, she admitted that she had had numerous affairs while married
- It was also disclosed that she used a portion of funds to have her breasts enhanced and a butt lift

Granbery Elementary School Parent-Teacher Organization

- Was also disclosed that she hosted underage parties where liquor was served
- Paid for over 12 friends of her daughter to fly to Miami and go on a cruise

Granbery Elementary School Parent-Teacher Organization

- The judge sentenced Ms. Buchanan to 16 years in the women's prison in Nashville
- May have lost her deposit on a Florida condo where she had rented it for a “Did Not Have To Go To Jail” celebration

Granbery Elementary School Parent-Teacher Organization

- After serving two years, she was considered for early parole because of prison overcrowding
 - Her parole officer recommended against

Granbery Elementary School Parent-Teacher Organization

- The parole board denied her request

Note: It is my understanding that her cellmate is a female teacher that was convicted of having sex with one of her high school students

Granbery Elementary School Parent-Teacher Organization

Update

Upon appeal, the court ruled that the judge should not have taken into consideration certain enhancing factors because the law that allowed such was passed after Ms. Buchanan committed her crimes.

Granbery Elementary School Parent-Teacher Organization

The End Result:

The judge reduced her sentence to time served (30 months of a 16-year sentence) and ordered her to perform public service at Vanderbilt Children's Hospital in the cancer patient ward

The hospital declined her services because she was a convicted [felon](#)

Gladeville Utility District

- The former manager received payments totaling \$300,211 that were either not approved and/or were in violation of district policy

Gladeville Utility District

- Unapproved salary - \$13,362
- Unapproved sale of sick leave - \$150,032
- Unapproved sale of vacation - \$38,602
- Unapproved pay raise - \$71,440
- Unearned (unauthorized) salary advance - \$26,775

Gladeville Utility District Summary - Findings



\$4,250

Gladeville Utility District—Direct Conflict of Interest

- Prepared a fake invoice to make it appear that he purchased a used Toro lawn mower from a lawn service when in fact he purchased it from himself
 - Bought it from his daughter's failed lawn service company

Gladeville Utility District Indictment

- Two counts of theft over \$60,000
- Eight counts of theft over \$10,000
- One count of official Misconduct



Recent UD Investigations

Sewanee Utility District



Indictment

- In July 2009, the Franklin County Grand Jury indicted Theresa Patton, former district office manager, on 11 counts, including theft over \$60,000, forgery, passing forged instruments, official misconduct, and destruction or tampering with governmental records.

Recent UD Investigations

- Ms. Patton charged personal purchases to a credit card issued in the name of the utility district.
- She then prepared checks or made payment by telephone from district bank accounts totaling \$58,849 to pay her personal charges.



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Also....numerous Cash Advances

Recent UD Investigations

- Ms. Patton also obtained several cash advances using the district's card which she then repaid with district funds
- Ms. Patton prepared a check to DT Services but recorded the check being paid to another legitimate vendor in the district's accounting records
 - She then deposited the check into her personal credit union account

Recent UD Investigations

- Ms. Patton also prepared and issued to herself an unauthorized check for \$3,169
 - Apparently she forged the second signature on the check
- Fraudulent petty cash expenditures of \$781

Hendersonville High School

Former bookkeeper was indicted for theft over \$60,000 - (\$76,122)

- Simply failed to record cash collections turned over to her
- Switched nonreoccurring revenue checks for cash

Hendersonville High School

- Altered numerous dates/amounts on teacher collection logs
- Issued and then destroyed hand issued receipts
- Destroyed original collection logs (found some in her trash)

Memphis City Schools Board of Education

- Paid for \$335,610 in air conditioner motors that were never delivered
- Clyde Green (vendor) and Randle Taylor (BOE employee) plead guilty to federal mail fraud charges

Athens Police Department

- Cash shortage of \$46,030
- 700 prescription pills missing
- At least 1.75 lbs. of marijuana missing
- At least 2 oz. of cocaine missing

Athens Police Department

- One handgun with an estimated value of \$1,000 was missing
- Although a former policeman signed a written confession that he took a portion of these funds, the McMinn County Grand Jury refused to indict him

Memphis Police Association

- Associate president was indicted for theft over \$10,000
 - He took \$26,239
- Diverted a refund check in the amount of \$5,996 to his personal bank account
 - Double paid American Express

Memphis Police Association

- Reimbursed \$5,934 for expenses never incurred
- Retained \$5,859 from a association sponsored softball tournament
- Issued a check for \$4,403 to pay his personal American Express bill

Memphis Police Association

- Deposited a refund check from the association's law firm into his personal bank account in the amount of \$2,878
- Made purchases with association funds, returned purchased merchandised, and kept the refund in the amount of \$1,169

Memphis Police Association

Update

It was recently reported by a local Memphis TV station that Mr. Turner had recently been arrested for shoplifting at Costco where he had been working in security. He was out of jail on bond awaiting trial related to the Police Association report when he was arrested.

Memphis Police Association End Results

- 66 Firearms unaccounted for
- 116.6 kilos of cocaine were sold out of the evidence room
- Over 560 pounds of marijuana was missing
- Up to \$10,000,000 in cash missing

My Favorite Frauds and How They Occurred

Business Is Good!

Finding fraud is like hunting.
The forest is full of animals.
You just have to look for them.
And know where they hide.



Thank You for Attending
Western CPE's Presentation of:

My Favorite Frauds and How They Occurred

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