



TCTC 2024
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The Good, the Bad and the Ugly: Case Studies in Public Corruption and Fraud

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Dave Cotton, CFE, CPA, CGFM

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DAVID L. COTTON, CPA, CFE, CGFM
CHAIRMAN EMERITUS, COTTON & COMPANY

Dave Cotton is founder and Chairman Emeritus of Cotton & Company, Certified Public Accountants, headquartered in Alexandria, Virginia. Cotton & Company was founded in 1981 and has a practice concentration in assisting Federal and State agencies, inspectors general, and government grantees and contractors with a variety of government program-related assurance and advisory services. Cotton & Company has performed grant and contract, indirect cost rate, financial statement, financial related, and performance audits for more than three dozen Federal inspectors general as well as numerous other Federal and State organizations, programs, activities, and functions. In April 2022, Cotton & Company became a wholly owned subsidiary of Sikich LLP.

Cotton & Company's Federal agency audit clients have included the U.S. Government Accountability Office, Public Company Accounting Oversight Board, U.S. Navy, U.S. Marine Corps, U.S. Transportation Command, U.S. Defense Security Cooperation Agency, U.S. House of Representatives, U.S. Capitol Police, U.S. Small Business Administration, U.S. Bureau of Prisons, Millennium Challenge Corporation, U.S. Marshals Service, and Bureau of Alcohol, Tobacco, Firearms and Explosives. Cotton & Company also assists numerous Federal agencies in preparing financial statements and improving financial management, accounting, and internal control systems.

Dave received a BS in mechanical engineering and an MBA in management science and labor relations from Lehigh University in Bethlehem, PA. He also pursued graduate studies in accounting and auditing at the University of Chicago Graduate School of Business. He is a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), and Certified Government Financial Manager (CGFM).

Dave served on the Advisory Council on Government Auditing Standards (the Council advises the United States Comptroller General on promulgation of **Government Auditing Standards**—GAO's yellow book). He served on the Institute of Internal Auditors (IIA) Anti-Fraud Programs and Controls Task Force and co-authored **Managing the Business Risk of Fraud: A Practical Guide**. He served on the American Institute of CPAs Anti-Fraud Task Force and co-authored **Management Override: The Achilles Heel of Fraud Prevention**. Dave is the past chair of the **AICPA Federal Accounting and Auditing Subcommittee** and has served on the **AICPA Governmental Accounting and Auditing Committee** and the **Government Technical Standards Subcommittee of the AICPA Professional Ethics Executive Committee**. Dave chaired the Fraud Risk Management Task Force, sponsored by COSO and ACFE and is a principal author of the **COSO-ACFE Fraud Risk Management Guide**. Dave co-chaired a task force to update the **COSO-ACFE Fraud Risk Management Guide**. In May 2022, Governor Glenn Youngkin appointed Dave to the Virginia Board of Accountancy.

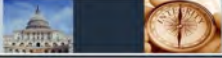
Dave served on the board of the Virginia Society of Certified Public Accountants (VSCPA) and on the **VSCPA Litigation Services, Professional Ethics, Quality Review, and Governmental Accounting and Auditing Committees**. He is a member of the Association of Government Accountants (AGA) and past-advisory board chairman and past-president of the AGA Northern Virginia Chapter and past Vice Chair of the **AGA Professional Ethics Board**. He is also a member of the IIA and the Association of Certified Fraud Examiners. Dave is presently serving on the National Association of State Boards of Accountancy (NASBA) Regulatory Response Committee.

Dave has testified as an expert in governmental accounting, auditing, and fraud issues before the United States Court of Federal Claims, the Armed Services Board of Contract Appeals, and other administrative and judicial bodies.

Dave has spoken and written frequently on cost accounting, professional ethics, and auditor fraud detection responsibilities. He has been an instructor for the George Washington University Master of Accountancy program (**Fraud Examination and Forensic Accounting**) and has instructed for the George Mason University Small Business Development Center (**Fundamentals of Accounting for Government Contracts**).

Dave was the recipient of the **ACFE 2018 Certified Fraud Examiner of the Year Award** ("presented to a CFE who has demonstrated outstanding achievement in the field of fraud examination ... based on their contributions to the ACFE, to the profession, and to the community"); **AGA's 2012 Educator Award** ("to recognize individuals who have made significant contributions to the education and training of government financial managers"); and **AGA's 2006 Barr Award** ("to recognize the cumulative achievements of private sector individuals who throughout their careers have served as a role model for others and who have consistently exhibited the highest personal and professional standards").

Disclaimer



The views expressed in this presentation are my views and do not necessarily align with the views of the Virginia Board of Accountancy.

Cotton

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The Good, the Bad, & the Ugly: Case Studies in Public Corruption and Fraud

- The Corrupt Utilities Authority of Southwest Virginia
- Leonard Glenn Francis (aka Fat Leonard)
- Dernoga Money
- The Gucci Goddess
- The Trusted Treasurer
- The Profitable Internal Service Center
- It Didn't Stay in Vegas
- Relocation and Transitional Living Expenses
- Surprise's Surprise

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Case Analysis

WHAT WERE THE FRAUD RISK FACTORS?

WOULD FRAUD RISK MANAGEMENT HAVE MADE A DIFFERENCE?

3

Case Analysis

WHAT WERE THE FRAUD RISK FACTORS?

Fraud Risk Factor: A characteristic that provides a *motivation/pressure* or *opportunity* for fraud to occur; a *rationalization/attitude* supportive of fraud; or an *indicator* that fraud might have occurred or might be occurring



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Case Analysis

WOULD FRAUD RISK MANAGEMENT HAVE MADE A DIFFERENCE?



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Basic fraud risk management process

Figure 1. Ongoing, Comprehensive Fraud Risk Management Process



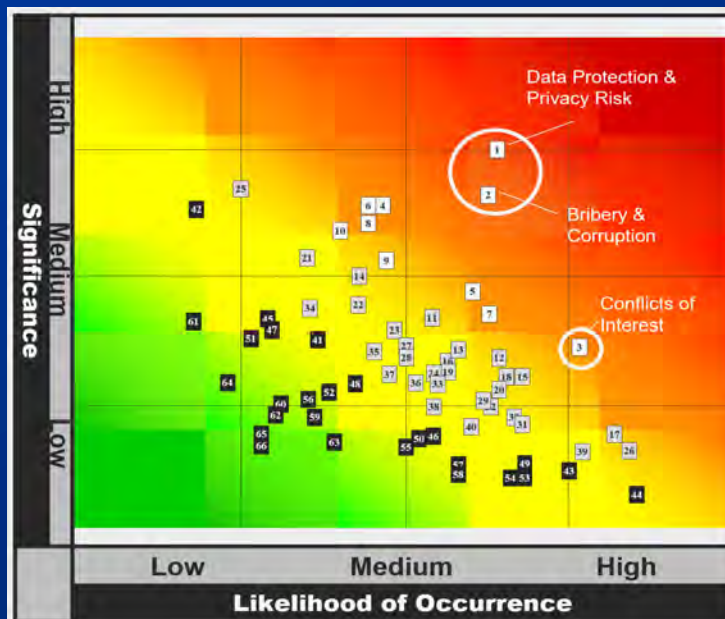
6

The risk assessment process



7

Fraud Risk Heat Map



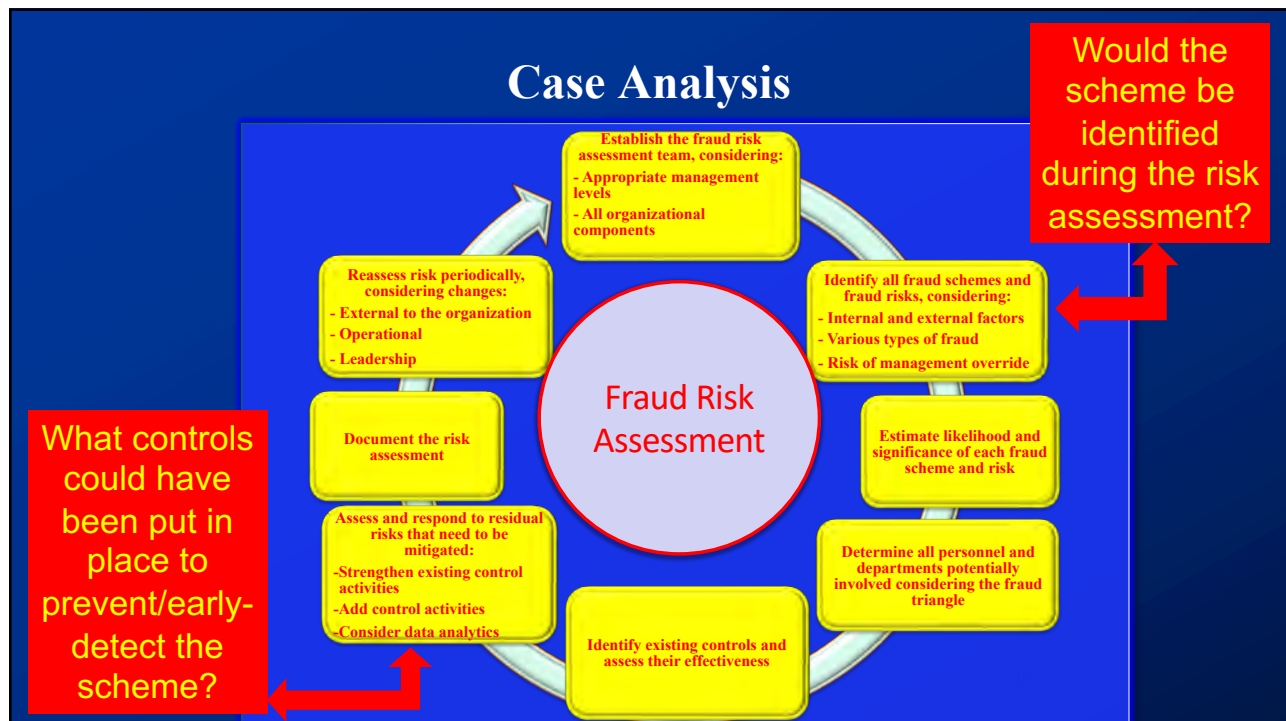
8

The risk assessment process



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Case Analysis



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Remember: Four words have preceded EVERY fraud that has ever been committed ...

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Remember: Eight words have followed EVERY fraud that has ever been discovered ...

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The Case of the Corrupt Utilities Authority of Southwest Virginia

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Bristol Virginia Utilities Authority



Source: washingtonmapstate.blogspot.com



Source: fineartamerica.com

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Bristol Virginia Utilities Authority

Mission Statement

BVU is committed to providing safe, efficient, and reliable electric, water, wastewater services, in the most courteous and professional manner, at the lowest possible cost.



Corporate History

Overview. Established as an independent political subdivision of the Commonwealth of Virginia, BVU provides electricity, water, and wastewater services to areas of Southwest Virginia. Headquartered in Washington County, Virginia, BVU serves more than 16,300 homes and businesses across a 125-square mile area. Customers span regions that include the City of Bristol, Virginia; Washington County, Virginia; Scott County, Virginia, and Sullivan County, Tennessee.

BVU employs approximately 65 employees and is currently governed by a five-member Board of Directors.


Source: BVUA.com

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Bristol Virginia Utilities Authority

Tucked in Virginia's far southwestern corner, Bristol Virginia Utilities, aka BVU, had the market cornered on electricity, water, sewer and high-speed Internet, and a breadth of corruption that could stun the most jaded cynic.

The utility was rife with self-dealing, extortion, tax evasion and fraud. There were kickback and bid-rigging schemes, demands BVU's major vendors underwrite fancy holiday parties (one cost more than \$12,000) and provide executives with choice tickets to pro football and college basketball games, NASCAR races, horse races and other sporting events.


Source: Dan Casey May 6, 2016 

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Bristol Virginia Utilities Authority

Court records depict one case in which some top BVU executives and board members took a weekend trip to Texas, where they relaxed in hotels, dined in restaurants, rode in limousines and watched the NFL's Dallas Cowboys from luxury skybox seats at AT&T Stadium, all courtesy of a company awarded a \$4.5 million contract from the agency.

Rank-and-file employees picked up at least \$48,000 total in untaxed bonuses paid as gift cards and cash. Top executives received country club memberships valued at \$70,000 , fully loaded GMC Yukons for personal use, and car allowances. Those extras weren't taxed either.


Source: *Dan Casey May 6, 2016* 

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Bristol Virginia Utilities Authority

Who actually paid for all of this?

Meanwhile, the utility's customers got hit with water, sewer, electric and cable-TV rate increases in a region where the median household income is \$33,600 and the poverty rate is 22 percent.

Source: *Dan Casey May 6, 2016* 

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Bristol Virginia Utilities Authority: Convictions



Stacey Pomrenke, former CFO of BVU

A federal jury in Abingdon convicted Stacey Pomrenke on 14 of 15 counts, including extortion, wire fraud, federal program fraud and conspiracy.

Pomrenke faces a total of up to 210 years in prison and \$3.5 million in fines, said Assistant U.S. Attorney Zachary Lee.

Lee described BVU as an agency with a “culture of corruption, a culture of entitlement and a culture of greed ... that started at the top and infected everything and everyone there.”

Source: *Dan Casey May 6, 2016* **THE ROANOKE TIMES**

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Bristol Virginia Utilities Authority: Convictions



Stacey Pomrenke, former CFO of BVU

She received 34 months in federal prison and three years of supervised probation after she serves her time. Pomrenke must also pay \$15,116 in restitution, \$34,546 in money judgment forfeiture, a \$10,000 fine and a special assessment of \$1,400.


Source: *Nick Shepherd August 11, 2016* **Johnson City Press**

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Bristol Virginia Utilities Authority: Pleas




Wes Rosenbalm, former CEO of BVU

Source: Dan Casey May 6, 2016 

Rosenbalm admitted to soliciting, and using others to solicit gifts and monetary payments from a variety of vendors that did business with BVU while BVU was receiving federal grant funds. These vendors felt the gifts and other payments they were being asked to provide to BVU had to be provided in order to continue to do business with BVU.

Rosenbalm has admitted to soliciting gifts and monetary payments that include, but are not limited to: tickets to University of Kentucky basketball games; \$663 for alcohol purchases at a BVU customer appreciation event; \$2,850 for a Thanksgiving lunch for BVU employees; \$15,000 for the BVU Christmas dinner; \$5,500 for the BVU Children's Christmas party; and \$4,125 for a scorer's table at the school one of Rosenbalm's children attended. Rosenbalm has agreed to pay \$50,000 forfeiture to account for this conduct.

He also faces a maximum possible sentence of five years in prison and/or a fine of up to \$250,000.


Source: U.S. Attorney's Office July 21, 2015 

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Bristol Virginia Utilities Authority: Pleas



Robert J. Kelley Jr., former BVU vice president of field operations

Source: Dan Casey May 6, 2016 

Kelley approved false invoices submitted by Company #1 for work not actually completed. These false invoices resulted in at least \$330,510 in fraudulent billing by Company #1 to the BVU. Kelley approved these invoices knowing they contained false information. Kelley also prepared invoices that he sent to Company #1 that falsely claimed he had done consulting work for Company #1 through his own RJK Consulting business. Kelley admitted today that he took these actions because he was paid at least \$160,000 in kickbacks as proceeds from the fraudulent billings by Company #1. Additionally, he failed to report his \$160,000 kickback income on his 2006, 2007, 2008, and 2009 tax returns.

Source: U.S. Attorney's Office Western District of Virginia March 26, 2015

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Bristol Virginia Utilities Authority: Pleas



David Copeland, former BVU of field operations

Source: Dan Casey May 6, 2016 THE BUSINESS TIMES

David Copeland pled guilty to a one-count Information charging him with a multi-object conspiracy to commit wire fraud and money laundering.

Company #1 submitted false invoices to Copeland for work not actually completed by Company #1 on behalf of BVU pursuant to a Virginia Tobacco Commission grant provided to the utilities authority. These false invoices reflected fraudulent amounts of rock drilling relating to the boring through of rock to lay fiber optic cable. After receiving payment from BVU, Company #1 conducted financial transactions to convert portions of the funds it received from BVU as a result of the fraudulent billings to cash in order to disguise its origins. In this case, \$40,000, was then paid to Copeland.

Source: U.S. Attorney's Office Western District of Virginia March 26, 2015

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Bristol Virginia Utilities Authority: Pleas



G. Walter Bressler, former BVU general counsel



Bruce James Clifton, former BVU board chairman

Source: Dan Casey May 6, 2016 THE BUSINESS TIMES

Source: U.S. Attorney's Office Western District of Virginia March 26, 2015

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Bristol Virginia Utilities Authority: Pleas

During an Executive Session of a BVU Board of Directors meeting in September 2013, Bressler, Clifton, and others, had specific discussions about violations of federal and state law, the types of violations that had occurred, and the consequences of those violations. Specifically, they had conversations about a trip members of the BVU Board of Directors were provided by a potential contractor to Dallas in November 2011. During that trip, the contractor provided board members in attendance with hotel expenses, limousine services, meals and tickets to a Dallas Cowboys football game, which included seats in a luxury box. The BVU Board of Directors entered into a contract with the contractor for the amount of \$4,496,096. Additionally, at this same meeting, the members of the Board of Directors discussed the criminal wrongdoing of the former Chief Executive Officer and other executives at BVU related to receiving things of value from contractors wanting to do business with BVU. As a result of these discussions, Clifton, Bressler and other board members agreed not to disclose these matters to law enforcement and to specifically avoid notifying the United States Attorney's Office of the allegations of wrongdoing by the CEO and other employees at BVU.

Source: U.S. Attorney's Office Western District of Virginia March 26, 2015

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Bristol Virginia Utilities Authority: The Whistleblower



Bristol Attorney Doug Fleenor

Source: WJHL October 18, 2018

Served on the BVU board since 2009.

Fleenor was inquiring about credit card charges by BVU workers. He learned that 28 different employees held agency credit cards.

The board asked more questions, and then opted to part ways with Rosenbalm. That decision was discussed in a series of private meetings. One was inadvertently recorded. That audio file wound up in the hands of the FBI.

In a split vote Sept. 25, 2013, the board authorized a \$270,000 severance for Rosenbalm. Fleenor voted against the package. Fleenor said he felt unsettled by what transpired. In October 2013, he took his concerns to then-Washington County Commonwealth's Attorney Nicole Price.

Source: Dan Casey May 6, 2016 **THE ROANOKE TIMES**

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Bristol Virginia Utilities Authority: Recap

- Corruption on a wide scale, by the board, management, and employees
- Bribes, kickbacks, illegal gratuities, self-dealing, improper payments, falsified records, extortion, tax evasion
- Attempts to cover up the improper behavior

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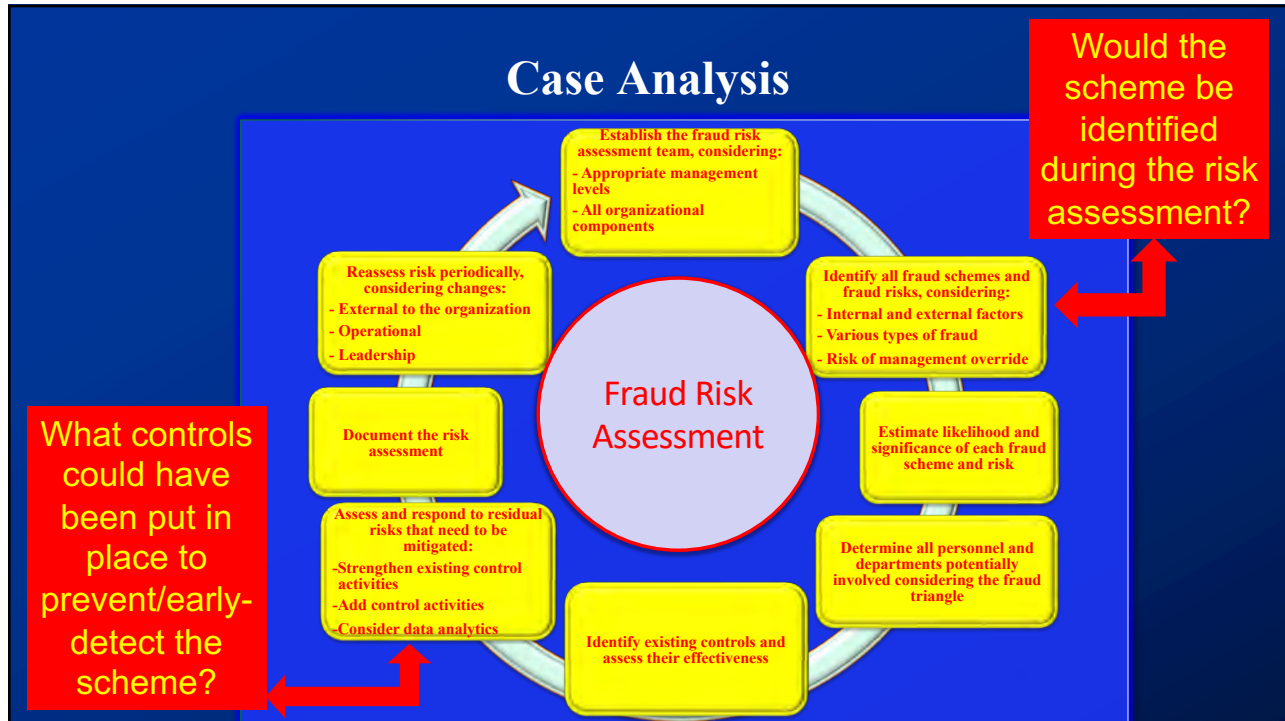
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The Fat Leonard Case—One of the Largest Bribery Scandals in U.S. History

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The Fat Leonard Case—One of the Largest Bribery Scandals in U.S. History



Leonard Glenn Francis (aka Fat Leonard)

31

The Washington Post

27 December 2016

- Fat Leonard “found it especially easy to outwit the Naval Criminal Investigative Service (NCIS)”
- “Starting in 2006 ... NCIS opened 27 separate investigations ... [but] in each ... Instance[], NCIS closed the case after failing to dig up sufficient evidence ...”

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Pop Quiz

In most corruption schemes:

- A. The participants try to keep the number of people involved as small as possible.
- B. The participants try to involve as many people as possible.

33

The Washington Post

27 December 2016

- “Francis held lucrative contracts to resupply U.S. warships and submarines in ports throughout Asia. He was also legendary within the Navy for throwing hedonistic parties, often with prostitutes, to entertain sailors.”

34

The Washington Post

27 December 2016

- “... staffers at U.S. Pacific Fleet headquarters were so worried about [Fat Leonard] that they drafted a new ethics policy to discourage Navy personnel from accepting favors from Francis.”
- “But [the policy] was blocked ... By admirals who were friendly with [Francis]”
- “The Navy kept awarding contracts ... In 2011, Glenn Davis won deals valued at \$200 million ...”

35

The Washington Post

27 December 2016

- “[The Navy] acknowledged that they were slow to recognize the scale of the fraud and the extent to which the Navy had been corrupted.”
- “the Navy moved more aggressively to investigate Glenn Defense starting in 2010 but ... it took three more years to arrest Francis because he had bought off so many Navy officials.”

36

The Washington Post

27 December 2016

- “In exchange for paid sex with prostitutes, cash and luxury vacations, Francis’s informants fed him a near-daily diet of classified material and inside information that enabled him to keep gouging the Navy and outfox his pursuers for years ...”
- “Francis’s most valuable mole was John Beliveau II, a turncoat NCIS supervisor ...”

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The Washington Post

27 December 2016

- ““We tried to come up with an example of . . . another instance in which a criminal enterprise so thoroughly penetrated a federal law enforcement agency,” [AUSA] Young said. “You would have to look back to the 1980s when Whitey Bulger’s Winter Hill Gang penetrated the Boston FBI ...”

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The Washington Post

27 December 2016

- “After NCIS recognized in 2012 that it had been compromised by a turncoat agent, the agency assigned a small number of personnel to effectively launch a new, clean investigation into Glenn Defense.”
- “The turning point came in the summer of 2013, when NCIS intentionally planted false information in its case files declaring that several investigations into Francis were being closed for lack of evidence.”

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The Washington Post

27 December 2016

- “The gambit was that one of Francis’s moles would see the information and pass it along to him, tricking him into lowering his guard, according to court records.”
- “It worked. ‘Good news,’ Francis texted one of his employees in July 2013. ‘Thailand n Korea cases all closed, only Japan pending, and shud close NCIS :)’”

40

The Washington Post

27 December 2016

- “Two months later, thinking he was in the clear, Francis traveled from Singapore to San Diego to meet with two Navy admirals in hopes of landing new contracts. Instead, he was arrested in his hotel suite.”

41

The Washington Post

5 November 2017

SOME OF THE BRIBES NAVY PERSONNEL HAVE BEEN CONVICTED OF TAKING

Prostitution Hotel rooms and meals

Meals, alcohol, gifts and stays at luxury hotels, including one night with his family at the Marriott Waikiki in Hawaii

One night with a prostitute at the Shangri-La hotel in Makati, Philippines

One night at a Tokyo hotel Four nights at a Manila hotel, along with a prostitute

Four nights at a Hong Kong hotel, along with a prostitute

Failed to disclose during security clearance review that Francis had given him prostitutes and gifts.

Free vacations for him and his extended family in Cambodia, Malaysia and Singapore

The services of prostitutes in Manila and Japan

Tickets to a Lady Gaga concert in Thailand Tickets to the “Lion King” musical in Japan

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The Washington Post

5 November 2017

SOME OF THE BRIBES NAVY PERSONNEL HAVE BEEN CONVICTED OF TAKING

A designer handbag for his wife Cash and other gifts worth up to \$140,000
Travel expenses, including hotel stays in Singapore, Tokyo and Manila Prostitutes
Roundtrip airfare from Japan to the United States \$3,000 in cash
One night with a prostitute at a karaoke club in Malaysia
Three nights at the Grand Hyatt hotel in Singapore
Three nights at the Grand Hyatt in Hong Kong
Two nights at the Empire Hotel in Hong Kong Nine days lodging in Tonga
Monthly \$1,000 cash allowance
Electronic gadgets, including a cellphone, iPad, digital camera and Wii and PSP video-gaming consoles

43

The Washington Post

5 November 2017

SOME OF THE BRIBES NAVY PERSONNEL HAVE BEEN CONVICTED OF TAKING

Hotel rooms for him and his Navy friends in Malaysia, Indonesia, Thailand, South Korea, Singapore and Hong Kong
Cash Laptop computer
Travel expenses, including airfare to Bangkok and two nights there in a hotel
A prostitute from the Philippines Three-week, five-country vacation in Southeast Asia
Cash payments Five nights at the Ritz-Carlton Bali resort hotel in Indonesia
A week at the Sheraton Jumeirah Beach hotel in Dubai
Three nights at the Shangri-La Hotel in Jakarta A week at the St. Regis Bali resort

44

The Washington Post

5 November 2017

- Francis, a Malaysian defense contractor pleaded guilty to bribing “scores” of Navy officials so that they would feed him classified information ...
- [A]uthorities have filed criminal charges against 29 people, ... An additional 440 active duty and retired military personnel—including about 60 admirals—have come under scrutiny ...

45

The Washington Post

5 November 2017

What is known

18 people who have pleaded guilty in U.S. federal court and **1** in Singapore,



10 others have criminal cases pending in federal court in San Diego



5 sailors have been charged under military law,



5 admirals have been disciplined or admonished by the Navy



... and **more than 400** others not yet identified.

46

The Washington Post

5 November 2017



Leonard Francis

President and chief executive officer, Glenn Defense Marine Asia

– Has admitted to bribing 'scores' of Navy officials with millions of dollars so they would leak him classified and confidential information about Navy operations, which he used in turn to gouge the Navy for port services.

STATUS Pleaded guilty in January 2015 to bribery, conspiracy to commit bribery, and conspiracy to defraud the United States.

47

The Washington Post

5 November 2017



Edmond Aruffo

Japan country manager for Glenn Defense; retired Navy officer

– Recruited active-duty Navy officers to work as moles for Glenn Defense. Devised kickback scheme with Japanese contractors to defraud the Navy of more than \$1 million. Used the kickback proceeds to pay for items that Glenn Defense did not want to record on its books, such as meals, drinks and gifts it gave to Navy officers.

STATUS Pleaded guilty in July 2014 to conspiracy to defraud the United States.

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The Washington Post

5 November 2017

Alex Wisidagama

Global manager for government contracts, Glenn Defense

PUNISHMENT

Sentenced in March 2016 to 63 months in federal prison.

Linda Raja, aka Raja Shamsa

General manager for Singapore, Australia and Pacific Isles for Glenn Defense

PUNISHMENT

Sentenced in August 2017 to 46 months in federal prison.

Neil Peterson

Vice president of global operations, Glenn Defense

PUNISHMENT

Sentenced in August 2017 to 70 months in federal prison.

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The Washington Post

5 November 2017



Rear Adm. Robert Gilbeau (retired)

Former special assistant to the chief of the Navy Supply Corps

PUNISHMENT

Sentenced in May 2017 to 18 months in prison, plus \$150,000 in fines and restitution.

Capt. Michael George Brooks (retired)

Former U.S. naval attache in the Philippines

PUNISHMENT

Sentenced in June 2017 to 41 months in prison, plus \$72,000 in fines and restitution.

TYPES OF BRIBES TAKEN

Prostitution
Travel



Capt. Jesus V. Cantu (retired)

Former assistant chief of staff for logistics, 7th Fleet

PUNISHMENT

Sentence pending.

TYPES OF BRIBES TAKEN

Prostitution
Travel



Capt. Daniel Dusek

Former deputy director of operations for the 7th Fleet; former commander of USS Bonhomme Richard

PUNISHMENT

Sentenced in March 2016 to 46 months in federal prison, plus \$100,000 in fines and restitution.

TYPES OF BRIBES TAKEN

Travel
Prostitution

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The Washington Post

5 November 2017



Cmdr. David Kapaun (retired)
Former deputy chief of staff, Special Operations Command, Pacific
TYPES OF BRIBES TAKEN
Prostitution



Cmdr. Michael Misiewicz
Former deputy director of operations, 7th Fleet; commander of USS Mustin
TYPES OF BRIBES TAKEN
Travel
Prostitution

Cmdr. Bobby R. Pitts (retired)

Former supply and logistics officer for 7th Fleet
TYPES OF BRIBES ALLEGEDLY TAKEN
Prostitution



Cmdr. Jose Luis Sanchez
Former logistics officer, 7th Fleet
TYPES OF BRIBES TAKEN
Money Travel



Lt. Cmdr. Gentry Debord
Former logistical and supply officer
TYPES OF BRIBES TAKEN
Prostitution

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The Washington Post

5 November 2017

Lt. Cmdr. Todd Malaki

Former logistics planner and supply officer
TYPES OF BRIBES TAKEN
Money
Prostitution
Travel



Petty Officer 1st Class Dan Layug

Former logistics specialist, USS Blue Ridge and 7th Fleet
TYPES OF BRIBES TAKEN
Money Travel



John Beliveau II

Former special agent, Naval Criminal Investigative Service
TYPES OF BRIBES TAKEN
Money Travel
Prostitution



Sharon Kaur

Former Navy contracting official based in Singapore
TYPES OF BRIBES TAKEN
Money Travel



Paul Simpkins

Former Navy contracting supervisor based in Singapore
TYPES OF BRIBES TAKEN
Money Travel
Prostitution

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Pop Quiz

NCIS had the following cyber control weakness:

- A. Poor password management.
- B. Use of outdate security software.
- C. Failure to restrict file access to only those with a need to know.

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The Washington Post

5 November 2017

Lt. Cmdr. Todd Malaki

Former logistics planner and supply officer

TYPES OF BRIBES

TAKEN

Money
Prostitution
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Money Travel
Prostitution

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The Washington Post

5 November 2017

10 Other Officers and Civilians are Awaiting Trial

Five Admirals Disciplined or Admonished

Court-Martial Proceedings Underway for Four Officers and One Chief Warrant Officer

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NavyTimes 9/1/2018

Navy's 'Fat Leonard' case implodes

By: [Mark D. Faram](#) September 1



Cmdr. David Morales and Leonard "Fat Leonard" Francis at the 2011 Navy Ball in Singapore, where they met. (special to Navy Times)

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NavyTimes 9/1/2018

- Morales was the first to go to trial rather than plead.
- Found guilty of just 2 of 5 charges: conduct unbecoming an officer and failing to report foreign contacts on his security clearance renewal.
- Instead of 17 years if he had been convicted on all 5 charges, he was sentenced to 165 days confinement, forfeiture of \$30,000 in pay and a fine of \$5,000.

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NavyTimes 9/1/2018

- The trial judge, Capt. Charles Purnell, found Fat Leonard, testifying for the first time, not credible.
- But, Purnell said, “I find an egregious pattern of accepting gifts, almost as bad as as if I had found you guilty of conspiracy and bribery, that thoroughly compromised you as an officer. When you play with fire, you get burned.”

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NavyTimes

Your Navy

'Fat Leonard' bribery trial to expose pervasive problem, analysts say

By [Julie Watson, The Associated Press](#)

📅 Wednesday, Mar 2

Five officers – Rear Adm. Bruce Loveless, Capts. David Newland, James Dolan and David Lausman, and Cmdr. Mario Herrera – have maintained their innocence and have gone to trial.

It's unclear whether Francis, who is in poor health and has been under house arrest, will testify at the trial, which is expected to last months. Defense lawyers have been trying to prevent him from taking the stand after he gave his version of events in a podcast last year.

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Los Angeles Times

BY KRISTINA DAVIS | SAN DIEGO UNION-TRIBUNE

MAY 2, 2022 7:44 PM PT

'Fat Leonard' will not be a prosecution witness in Navy bribery trial

Francis could still be subpoenaed by the defense to testify. Even though he is a foreign national – a Malaysian living in Singapore – he is in custody in the United States and therefore subject to U.S. subpoena powers.

Francis was anticipated to be a bit of a loose cannon on the stand because of his intimate involvement in the scheme, axe to grind with the Navy and boastful air. That was on full display late last year, when he recorded a secret [podcast](#) with a former Wall Street Journal reporter that had him for the first time publicly speaking freely of the long-running scheme.

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'Fat Leonard' behind Navy bribe scandal escapes house arrest ahead of sentence

By Mark Moore

September 6, 2022 | 2:48pm | Updated

The former military contractor at the center of the largest corruption scandal in the history of the US Navy escaped from house arrest in San Diego over the weekend by cutting off his GPS monitor — weeks before he was to be sentenced for defrauding the service of at least \$35 million.

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NEWS



Fugitive 'Fat Leonard' in US Navy bribery scandal nabbed in Venezuela

By Mark Moore

September 22, 2022 | 11:46am | Updated

A 16-day international manhunt for Leonard Glenn Francis ended Tuesday morning when he was detained at the Caracas airport as he prepared to board a flight to Russia, Interpol in Venezuela posted on its Instagram page on Wednesday.

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The Fat Leonard Case—One of the Largest Bribery Scandals in U.S. History



USNI



Interpol Venezuela Instagram acc

Leonard Glenn Francis (aka Fat Leonard)

63

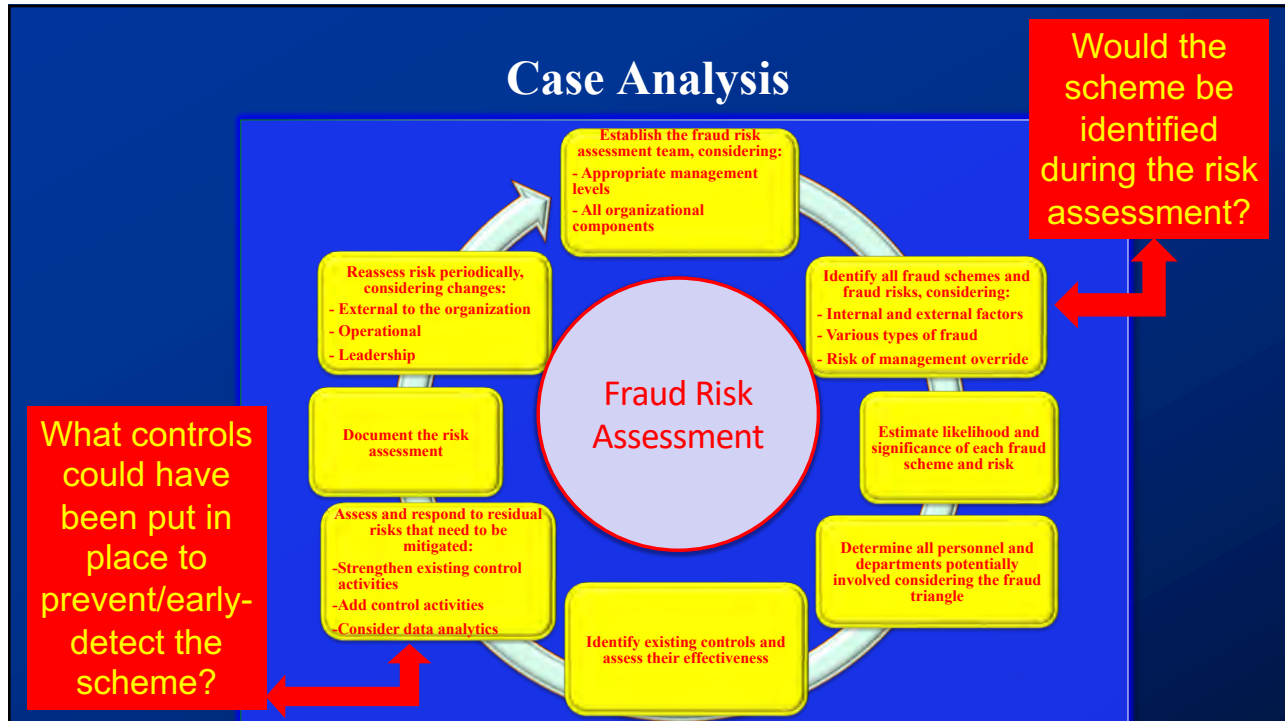
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Dernoga Money: The Case of the Corrupt(?) Councilman

66

***Dernoga Money:
The Case of the Corrupt(?) Councilman***

The Washington Post

**Ethics law addresses ‘Dernoga money’ in
Prince George’s**

By Ovetta Wiggins, Thursday, April 21, 7:27 PM

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Dernoga Money

- Thomas E. Dernoga was a Prince George’s County Council member from 2001 to 2010



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The Washington Post

By **Ovetta Wiggins**
April 21, 2011

- Thomas E. Dernoga “jokingly referred to himself as Robin Hood.”
- “contributions to various groups — which totaled about \$1 million during his eight years in office — were Dernoga’s way of getting developers to help improve the communities where they did business, he said.”
- “He said the track at High Point High School was resurfaced with \$125,000 he got from a couple of developers, and the bookshelves at the Deerfield Elementary School library were restocked with \$20,000 he got from another.”

69

The Washington Post

By **Ovetta Wiggins**
April 21, 2011

- Dernoga said he “*never held up a project because a developer had declined his requests for a donation.*”
- He said he “*never crossed any ethical or legal boundaries and never used the money for himself.*”
- “Dernoga regularly presented checks at back-to-school nights and other programs in his Laurel district. Community and school leaders have called the donations ‘Dernoga money.’”

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Dernoga Money



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The Washington Post

By **Ovetta Wiggins**
April 21, 2011

Dernoga Money From the “Donor’s” Perspective

- “... representatives for developers ... said they think it is inappropriate to be asked for money while seeking approval on a project.”
- “The solicitations came in private, and if the developers raised questions, their projects were delayed, they said.”
- “‘It seemed like by not playing the game, we were suffering,’ said a representative for one developer.”

72

The Washington Post

By **Ovetta Wiggins**
April 21, 2011

Classic Rationalizations (The Saint's License)

- *"If you don't want to contribute, I'm not going to hold it against your project," he said. "I'll treat your project fairly. But don't come look to me for favors."*
- *"Most of the people want a favor. They want more density. They want more parking. They all want something. They seem to think they are entitled. You say you want the county to do you a favor that might be good for the county, but it is also going to make you a lot of money. But are you willing to support local needs?"*

73

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The Washington Post

By **Ovetta Wiggins**
April 21, 2011

Classic Rationalizations (The Saint's License)

- “You have these people making millions, and all this density and all the traffic [we’d] absorb on Route 1. You mean to tell me you have nothing to help out our schools?” Dernoga said. “I found it greedy on the part of the property owners.”
- “Moments before the ... council was to vote in 2007 on a ... project, ... Dernoga pulled [the property owner] and three others into a hallway.”

75

The Washington Post

By **Ovetta Wiggins**
April 21, 2011

Classic Rationalizations (The Saint's License)

- “[The owner] said Dernoga told them that the measure wouldn’t pass that day unless the group gave \$200,000 for county schools.”
- “Dernoga said during an interview that he had asked for \$100,000 and that he wasn’t holding the ... plan hostage.”
- “Dernoga said that project would have cost the main developers \$120 million and that \$100,000 would have been a ‘drop in the bucket,’”

76

Corruption?

“Any scheme in which a person uses his or her influence in a business transaction to obtain an unauthorized benefit contrary to that person’s duty to his or her employer.”

-- Fraud Examination, Fourth Edition, Albrecht, Albrecht, Albrecht, and Zimbelman, South-Western Cengage Learning, 2006

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Public Corruption?

“Public corruption involves a breach of public trust and/or abuse of position by federal, state, or local officials and their private sector accomplices. By broad definition, a government official, whether elected, appointed or hired, may violate federal law when he/she asks, demands, solicits, accepts, or agrees to ***receive anything of value*** in return for being influenced in the performance of their official duties.”

--http://topics.law.cornell.edu/wex/public_corruption

Did Dernoga “receive anything of value”?

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Pop Quiz

Did Dernoga receive anything of value?

- A. No.
- B. Yes.

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The Washington Post

By **Ovetta Wiggins**
April 21, 2011

- Dernoga’s behavior “prompted Maryland legislators to pass an ethics bill that would ban ... council members from asking anyone who is seeking legislation or approvals to provide anything of value.”

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You Can't Make Up Stuff Like This

- Term-limited off of the PG County Council, Dernoga ran for County Attorney General
- Washpost article titled "Crime looms as major issue in Prince George's state's attorney race"



"Crime is eating at the county," Dernoga said. "We have a hard time attracting business."

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Classic Rationalizations

The Saint's License

"This rationalization has probably caused more death and human suffering than any other. The words 'it's for a good cause' have been used to justify all sorts of lies, scams and mayhem."

Source: http://www.ethicsscoreboard.com/rb_fallacies.html

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***Dernoga Money:
The Case of the Corrupt(?) Councilman***



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Pop Quiz

Choose one:

- A. Dernoga was a crooked politician.
- B. Dernoga actually believed he was serving the community by his actions and simply failed to see his ethical failings, his ethical blind spot.

84

Tom Was Re-Elected to the County Council in 2018



Source: <https://pgccouncil.us/directory.aspx?eid=148>

85

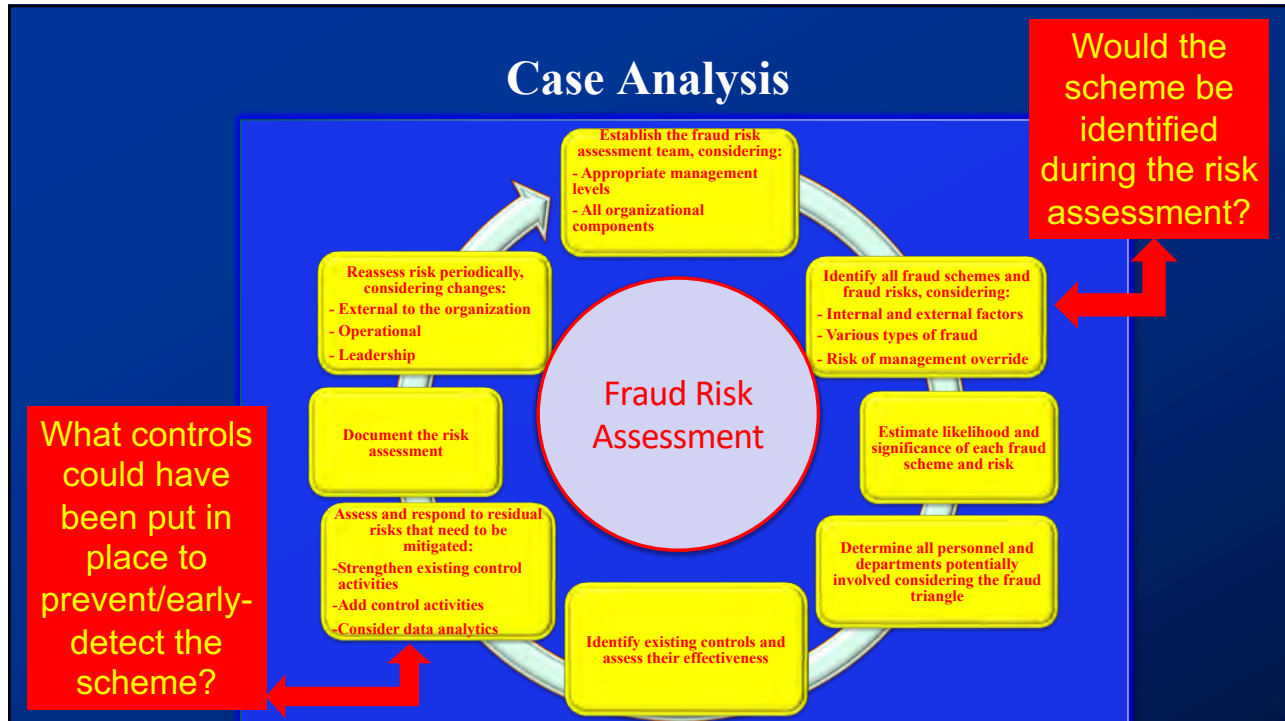
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The Gucci Goddess



Janet Yamanaka Mello

Source: Nicholas McEntyre, Jan 11, 2024 **NEW YORK POST**

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Janet Yamanaka Mello (aka the Gucci Goddess)

- Civilian financial program manager at Fort Sam Houston, TX
- In 2016, created “Child Health and Youth Lifelong Development” (CHYLD)
- Submitted paperwork to the Army for services allegedly provided to military members and their families
- Allegedly obtained more than \$100 million
- The IRS flagged Mello’s suspicious business when she included it on her personal tax returns in 2017, reporting a \$483 profit on \$2,152 revenue

Source: Nicholas McEntyre, Jan 11, 2024 **NEW YORK POST**

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Janet Yamanaka Mello (aka the Gucci Goddess)

- Indicted in December 2023 on 10 fraud counts
 - 5 counts of mail fraud
 - 4 counts engaging in monetary transactions using criminally derived proceeds
 - 1 count of aggravated identity theft
- Allegedly stole more than \$100 million from the Army through her scheme
- Faces maximum of 142 years in prison

Source: U.S. Attorney's Office, Western District of Texas, December 6, 2023

91

Janet Yamanaka Mello (aka the Gucci Goddess)

What did Mello do with the money?

- 31 real estate properties in CO, MD, NM, TX, and WA, including
 - \$3.1 million, 8 bedroom, 12 bath, mansion with 55 garage spaces on 58 acres in Preston, MD
 - \$2.3 million, 4 bedroom, 6 bath, home on 35 acres in Castle Rock, CO
- 78 vehicles
 - 16 Harley-Davidson motorcycles, five Triumphs, four Ducatis, two BMWs and a 1955 Ferrari Fratelli 165 Racer.
 - 2018 Maserati GranTurismo, a 1954 Chevrolet Corvette, a 1966 Ford Mustang, five Mercedes-Benzes and two Aston Martins


Source: Nicholas McEntyre, Jan 11, 2024 **NEW YORK POST**

92

Janet Yamanaka Mello (aka the Gucci Goddess)

What did Mello do with the money?

- Millions in various luxury goods: jewelry, handbags
- Authorities seized over \$18 million in cash

Source: Nicholas McEntyre, Jan 11, 2024 

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Janet Yamanaka Mello (aka the Gucci Goddess)

- Pled guilty in February 2024 to theft of \$108 million
 - 5 counts of mail fraud
 - 5 charges of filing false tax returns
- “One of the biggest thefts of public funds in Texas history”
- “She admitted that she exploited lax controls at the Army’s Installation Management Command to divert \$108 million to CHYLD”

Source: Guillermo Contreras, February 29, 2024, San Antonio Express News

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Janet Yamanaka Mello (aka the Gucci Goddess)

- Mello’s lawyer said, “She’s accepting responsibility for her actions. She’s very remorseful for what she’s done.”
- “She was cooperating with the government from the beginning to recover as much of the assets as possible,” he said.

Source: Guillermo Contreras, February 29, 2024, San Antonio Express News

95

Janet Yamanaka Mello (aka the Gucci Goddess)

- Mello helped run the 4-H Military Partnership Grant program
- “Her bosses gave her almost complete autonomy, with few checks and balances.”
- “Mello not only took advantage of the leeway she had in her job, but the trust another federal agency, the Defense Finance and Accounting Service, placed in the command by assuming the Army vetted its vendors.”

Source: Guillermo Contreras, February 29, 2024, San Antonio Express News

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Janet Yamanaka Mello (aka the Gucci Goddess)

- “DFAS mailed more than 40 payment checks to CHYLD totaling \$108 million”
- “DFAS sent the money after receiving packets from Mello that included fictitious names and emails of people she claimed worked for the government. Mello forged the digital signature of one of her bosses, Suzanne King, chief of G-9's children and youth services, records said.”
- Her sentencing is scheduled for May 29

Source: Guillermo Contreras, February 29, 2024, San Antonio Express News

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Janet Yamanaka Mello (aka the Gucci Goddess)

- Prosecutors said, "Despite the massive amount of money that went to CHYLD, defendant's supervisors trusted defendant and did no independent verification that CHYLD actually provided services consistent with the purpose of the program, did no review of defendant's relationship to CHYLD, and took no additional steps to confirm the funds defendant authorized and requested were lawfully used consistent with the purpose of the program,"

Source: Guillermo Contreras, February 29, 2024, San Antonio Express News

98

Janet Yamanaka Mello (aka the Gucci Goddess)

- Army Installation Management Command’s Lt. Gen. Omar J. Jones IV said, “his office takes the case seriously and is making administrative changes in response to Mello's fraud. Those include ‘increased control measures to reduce risk of fraudulent payments; increased oversight and separation of duties to reduce risk of improper action; and reduced the number of staff with signature authority to issue payments.’”

Source: Guillermo Contreras, February 29, 2024, San Antonio Express News

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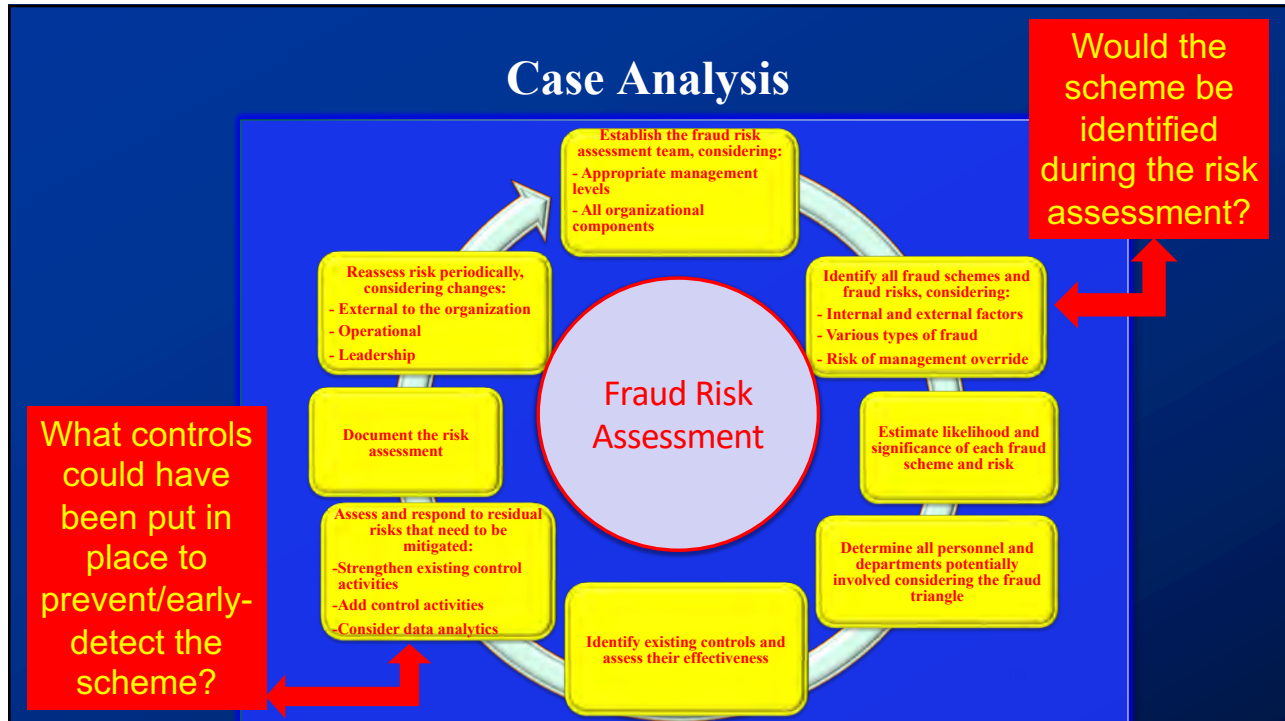
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Dixon, Illinois



Source: live.staticflickr.com

103

Dixon, Illinois



Source: qctimes.com

Rita Crundwell

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- Rita Crundwell was appointed treasurer/comptroller of Dixon in 1983.
- She embezzled ~\$53 million from the city from 1990 to 2012.
- She was arrested April 17, 2012
- Pleaded guilty on November 14, 2012
- Sentenced to 19 years and 7 months in prison on February 14, 2013

Source: http://www.huffingtonpost.com/2013/02/06/rita-crundwell-sentencing_n_2633791.html

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**Dixon's 2012
budget was
~\$17 million**

Source: http://www.huffingtonpost.com/2013/02/06/rita-crundwell-sentencing_n_2633791.html

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How Did She Do It?

- Opened a bank account called Reserve Sewer Capital Development Account (RSCDA) with herself as the only signatory
- Moved City funds into a legitimate City account—Capital Development Account (CDA)
- Created phony invoices that she paid with CDA checks payable to “Treasurer”
- Deposited checks into the RSCDA
- Used funds to run her thoroughbred horse farm and business and on “prize-winning horses, expensive jewelry, luxury cars and even birthday bashes in Venice Beach, Fla.” 

Source: http://www.huffingtonpost.com/2013/02/06/rita-crundwell-sentencing_n_2633791.html

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Rita's \$2.1 Million Motor Coach



Source: Apple Auctioneering Co.

108



How Did She Get Caught?

- While Rita was away at a horse show, another city employee stumbled upon the secret account.
- Kathe Swanson was Dixon’s City Clerk.
- Kathe Swanson received the ACFE’s 2018 Sentinel Award.

Source: http://www.huffingtonpost.com/2013/02/06/rita-crundwell-sentencing_n_2633791.html

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— Outcomes

Bottom Line:

Amount misappropriated by Crundwell:	~\$54 million
Attorneys fees:	<u>~\$10 million</u>
Loss to Dixon:	~\$64 million
Recovery from sale of Crundwell assets:	~\$10 million
Settlement with accounting firm:	~\$35 million
Settlement with audit firm:	~\$1 million
Settlement with bank:	<u>~\$4 million</u>
Dixon’s net monetary loss:	<u>~\$14 million</u>

Source: http://www.huffingtonpost.com/2013/02/06/rita-crundwell-sentencing_n_2633791.html

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--Where Were the CPAs?

- Dixon employed three CPA firms over the relevant period: a large national firm and two very small firms.
- The large firm asserted that it only did the compilation; the small firms say the large firm did the audits while they just signed the audit reports.
- “Auditors” accepted fabricated invoices as support for Rita’s transfers totaling ~\$54 million.

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Source: <https://wqad.com/2013/09/26/how-crundwell-did-it-why-auditors-are-also-to-blame/>

111



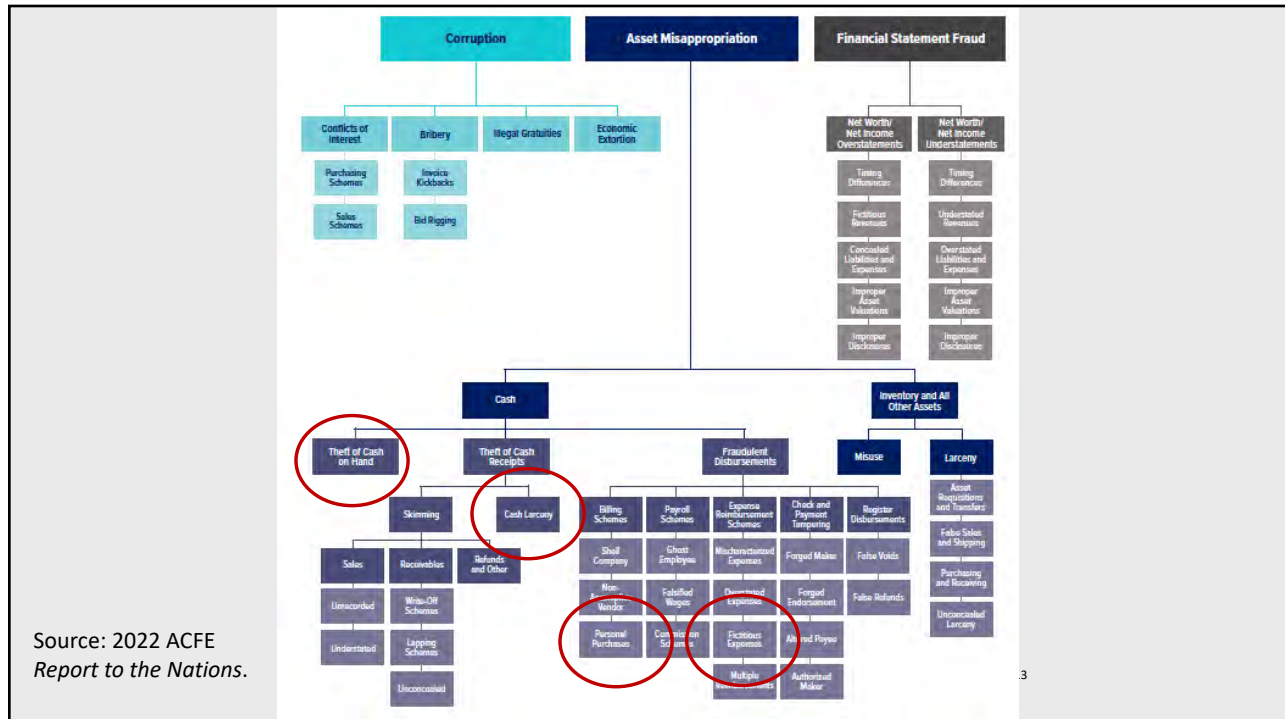
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112



Source: 2022 ACFE Report to the Nations.

113

Psychopath or Sociopath?

Source: FOX2now.com

Motive?

Rationalization?

114

Psychopath or Sociopath?

... prosecutors noted that while Crundwell was stealing from the city, she repeatedly argued for painful spending cuts at budget meetings. She claimed the shortfalls were the result of an economic downturn and late payments from Illinois' state government, according to prosecutors.

"Day after day, for more than 20 years, (the) defendant would work with employees of the city of Dixon and interact with citizens in her capacity as comptroller while lying about the reason the city of Dixon lacked funds," U.S. Attorney Gary Shapiro wrote.

... the impact of the theft: Police could not afford to upgrade squad car radios or make new hires, streets could not be resurfaced, a waste water treatment facility had to be delayed and the city had to issue \$3 million in bonds to cover financial obligations.

"... prosecutors included a news article about Crundwell's 2010 birthday party in Venice Beach. Paid for with the help of stolen money, the party had live music, prime rib and jumbo shrimp cocktails.

"Rita was gorgeous as always in one of her trademark 'must have' coats," said the article in GoHorseShow.com.

Source: http://www.huffingtonpost.com/2013/02/06/rita-crundwell-sentencing_n_2633791.html

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Classic Rationalization?

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“On the day that the FBI arrested Rita, she did not react in any way that was unusual.”

[Source: <http://www.nbcnews.com/video/rock-center/49113424#49113424>]

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Rita Crundwell Update

In the summer of 2021, Crundwell herself returned to Dixon. She'd only served about eight years of her sentence when the Bureau of Prisons released her, without notice to the city, under legislation allowing for the release of some prisoners at high risk from Covid due to age or other factors. (At the time, Crundwell was 67, and [wrote to a judge that she had chronic hypertension](#), high cholesterol and bad kidney function.) And though the Bureau does not disclose the location of prisoners released to home confinement, Crundwell's release plan indicated she planned to live with her brother Richard Humphrey in Dixon.

[Source: [She Stole \\$54 Million From Her Town. Then Something Unexpected Happened](#), POLITICO Magazine, by Kathy Gilsinan, May 12, 2023.]

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Crime Pays?

- Sentenced to 19 years, 7 months (until ~2032)
- Released on August 4, 2021 (after just 7 years and 6 months)
- Dixon was not informed about her release
- Citizens of Dixon Not happy
- Math: \$54 million/7.5 years = \$7.2 million per year

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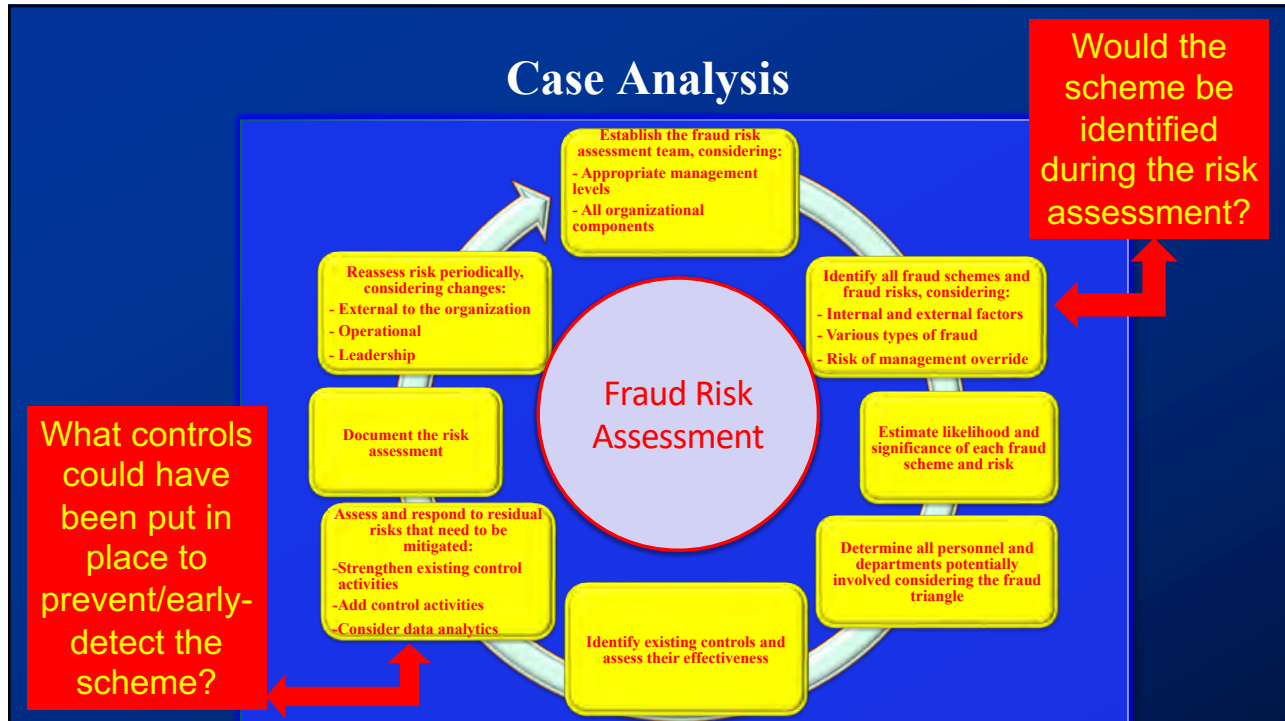
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The Profitable Internal Service Center

122

ICF-Kaiser International, Inc

- ✓ In the late 1980s and early 1990s ICF was a major Federal government contractor
- ✓ ICF used an internal service center to provide computer services to its divisions and their employees
- ✓ The computer center charged “customers” at “commercial equivalent” rates
- ✓ Each year, the center reconciled its actual costs with its billings to “customers”

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ICF-Kaiser International, Inc

- ✓ The difference (always an excess of revenues over costs) should have been either (a) credited back to “customers” or (b) credited to an indirect cost pool
- ✓ Instead of booking these credits, ICF recorded the difference as a “contingency”
- ✓ Cotton & Company was the EPA-OIG-assigned cognizant audit firm during the early 1990s
- ✓ During an audit of ICF’s indirect cost rates, C&C asked for and obtained access to ICF’s financial statement auditor’s workpapers

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ICF-Kaiser International, Inc

- ✓ In reviewing these workpapers, C&C noted the computer service center adjustment included in a workpaper supporting the corporation's contingent liabilities note disclosure
- ✓ The outside auditors had noted, *on this workpaper*, that once the government auditors had completed the audit of each year's indirect cost rates, if they had failed to find the adjustment, that year's adjustment would be reversed to retained earnings
- ✓ Cotton & Company referred this matter to the EPA IG's investigators

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ICF-Kaiser International, Inc

- ✓ The EPA IG investigation was completed in 2000

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From the EPA-IG's March 2003 Semiannual Report

During this reporting period, a final estimate of the value of the September 2000 settlement agreement between ICF Kaiser International, Inc., and the United States Attorney's Office, Eastern District of Virginia, was computed. Based upon the documentation provided by ICF and their representations during the settlement negotiations, the total value of the settlement was placed at \$391,061,944.

Under the terms of the settlement agreement, ICF agreed to waive these cost claims, which in turn allowed the government to deobligate retained funds and avoid contract closing costs.

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From the EPA-IG's March 2003 Semiannual Report

The settlement agreement was the culmination of a lengthy investigation that disclosed that ICF may have billed government contracts for computer center costs in excess of the costs actually incurred. The EPA and 17 other federal departments/agencies were affected by this settlement.

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Case Analysis



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The Lavish-Spending leader

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Lawrence M. Small



Source: nbcnews.com

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Lawrence M. Small

- 11th secretary of the Smithsonian Institution
- Served from 2000 to 2007
- Prior experience
 - Citicorp vice-chairman
 - Fannie Mae president
- First secretary from the business community
- “On March 24, 2007, Small submitted his resignation to the Board of Regents amid questions over management practices at the Institution.”

Source: Smithsonian Institution Archives

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The Washington Post
SUNDAY, FEBRUARY 25, 2007

Smithsonian He... t Says

By JAMES V. GRIMALDI
Washington Post Staff Writer

Lawrence M. Small, the top official at the Smithsonian Institution, accumulated nearly \$90,000 in unauthorized expenses from 2000 to 2005, including charges for chartered jet travel, his wife's trip to Cambodia, hotel rooms, luxury car service, catered staff meals and expensive gifts, according to confidential findings by the Smithsonian inspector general.

“Many properly conducted transactions in accordance with the Smithsonian's policies,” act Sprightly the Smith Audit Board said. “Some transactions might be considered lavish or extravagant.”

Small, who in 2000 became the 11th Smithsonian secretary, will accumulated nearly \$90,000 in unauthorized expenses from 2000 to 2005, including charges for chartered jet travel, his wife's trip to Cambodia, hotel rooms, luxury car service, catered staff meals and expensive gifts, according to confidential findings by the Smithsonian inspector general.

Small declined an interview. “Mr. Small is not going to talk about his

...,” said Smithsonian Linda St. Thom determine all secretion.”

...rts to the institution Board of Regents, the inspector general's audit committee, regents. The board last month accepted the committee's decision to dismiss the findings and defended Small's expenses

See SMITHSONIAN, A6, Col. 1

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The Washington Post
SUNDAY, FEBRUARY 25, 2006

Smithsonian Head's Expenses Board Calls Small's Charge

By JAMES V. GRIMALDI
Washington Post Staff Writer

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"Many transactions were not properly documented or were not in accordance with Smithsonian policies," acting Inspector General A. Sprightley Ryan wrote on Jan. 16 to the Smithsonian Board of Regents Audit and Review Committee. "Some transactions might be considered lavish or extravagant."

Small, who in 2000 became the 11th Smithsonian secretary, will earn a pension that is about 10 times that of the outgoing president of Harvard University, which has an endowment about 30 times the size of the Smithsonian's. Over the past seven years, Small has also received \$1.15 million for making his house available for official functions.

Small declined an interview. "Mr. Small is not going to talk about his expenses," he said in a statement.

Small, 60, reports to the institution's 17-member Board of Regents, which referred the inspector general's findings to its audit committee, made up of four regents. The board last month accepted the committee's decision to dismiss the findings and defended Small's expenses.

See SMITHSONIAN, A6, Col. 1

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The Smithsonian Board (at the time)

- John G. Roberts, Jr., Chief Justice of the United States
- Richard B. Cheney, Vice President of the United States
- Thad Cochran, Senator from Mississippi
- Christopher Dodd, Senator from Connecticut
- Patrick J. Leahy, Senator from Vermont
- Xavier Becerra, Representative from California
- Sam Johnson, Representative from Texas
- Doris Matsui, Representative from California
- Eli Broad, Chairman of AIG Retirement Services, Inc.
- Anne d' Harnoncourt, Chief Executive Officer, Philadelphia Museum of Art
- Phillip Frost, former Chairman and CEO of IVAX Corporation
- Shirley Ann Jackson, President of Rensselaer Polytechnic Institute
- Robert P. Kogod, former CEO of the Charles E. Smith Companies
- Walter E. Massey, President of Morehouse College
- Roger W. Sant, Chairman Emeritus of The AES Corporation
- Alan G. Spoon, Managing General Partner of Polaris Venture Partners
- Patricia Q. Stonesifer, President of the Bill & Melinda Gates Foundation

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The Washington Post

SUNDAY, FEBRUARY 25, 2007

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Washington Post Staff Writer

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See SMITHSONIAN, A6, Col. 1

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Lavish, Extravagant, or Reasonable?

- \$150,000 per year housing allowance based on “hypothetical” mortgage (Small owned his home and had no actual mortgage)
- \$14,509 round-trip charter flight to San Antonio
- \$5,764 for wife’s 3-day “side trip to Cambodia” while on a trip to China
- \$27,000 for car service while on travel over a 6-year period
- \$4,300 for a “staff dinner”
- \$700 for lunches and his wife’s “spousal fee” at the exclusive Cosmos Club
- \$4,800 unauthorized bonus for an assistant
- \$9,300 on flowers for staff, volunteers, and donors
- \$12,000 for upkeep and service on his swimming pool, including \$4,000 to replace the lap pool’s heater and pump.

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The Washington Post

NEWS | LOCAL | POLITICS | SPORTS | OPINIONS | BUSINESS | ARTS & LIVING | GOING OUT

Smithsonian's Small Quits in Wake of Inquiry

By Jacqueline Trescott and James V. Grimaldi
Washington Post Staff Writers
Tuesday, March 27, 2007

"Making the Smithsonian more bureaucratic and political, however, is not, in my view, conducive to sustaining the momentum the Smithsonian enjoys today and, therefore, I'm very troubled about what I see happening.

"I really see no compelling reason for me to continue to lead the Smithsonian and resign from my position effective immediately."

140

The Washington Post

Looking at the Larger (Money) Picture

Saturday, March 3, 2007

Reading the headline ["Smithsonian Head's Expenses 'Lavish,' Audit Says; Board Calls Small's Charges 'Reasonable,' " front page, Feb. 25] and the 2,100-word article about Smithsonian head Lawrence M. Small, one could easily come away with the impression that this was another Washington scandal about an official using public funds with reckless abandon. Except for 10 words: "Small had given the institution almost \$430,000, primarily in securities."

I have worked with various organizations, agencies and foundations over the years, including, on occasion, the Smithsonian. To me, a guy who has raised almost a billion dollars for the Smithsonian -- including almost a half-million of his own money -- doesn't sound like someone hellbent on bilking the organization.

--[Washington Post Reader]

141

Psychopath or Sociopath?



Source: Smithsonian Institution Archives

Motive?

Rationalization?

142

Classic Rationalization?

143

Classic Rationalizations

The King's Pass

“One will often hear unethical behavior excused because the person involved is so important, so accomplished, and has done such great things for so many people that we should look the other way, just this once.”

Source: <https://ethicsalarms.com/rule-book/unethical-rationalizations-and-misconceptions/>

144

Case Analysis

WHAT WERE THE FRAUD RISK FACTORS?

Fraud Risk Factor: A characteristic that provides a *motivation/pressure* or *opportunity* for fraud to occur; a *rationalization/attitude* supportive of fraud; or an *indicator* that fraud might have occurred or might be occurring



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Case Analysis



146

It Didn't Stay In Vegas

147

Who Is This Man?



Source: [foxbusiness.com](https://www.foxbusiness.com)

148

Who Is This Man?



Source: foxnews.com

149

Case Study

Waste, Abuse, or Fraud?

- Jeff Neely was GSA regional commissioner and oversaw a lavish \$822,000 training conference in Las Vegas in 2010
- The waste and abuse included:
 - \$136,000 on pre-conference scouting trips to the Las Vegas hotel
 - \$146,000 for catered food
 - \$6,300 on commemorative Recovery Act coins housed in velvet boxes
 - \$75,000 on a bicycle-building training exercise.

Source:  FEDERAL NEWS RADIO
7000 AM

150

Case Study

Waste, Abuse, or Fraud?

- Neely was indicted in September 2014 on five counts of falsely claiming reimbursement for pleasure trips or airplane tickets that he did not use
- Neely pleaded guilty to one count of fraud against the government in April 2015
- Neely was sentenced in June 2015 to 3 months in prison, 3 months under home confinement, and 3 years of probation
- Neely was ordered to pay \$8,000 in restitution, a \$2,000 fine, and a \$100 special assessment penalty

Source:  FEDERAL NEWS RADIO
1800.FNR

151

The Washington Post
Democracy Dies in Darkness

FEDERAL INSIDER

Government exec who famously partied in a hot tub on taxpayers' dime is sentenced to prison



By [Lisa Rein](#)

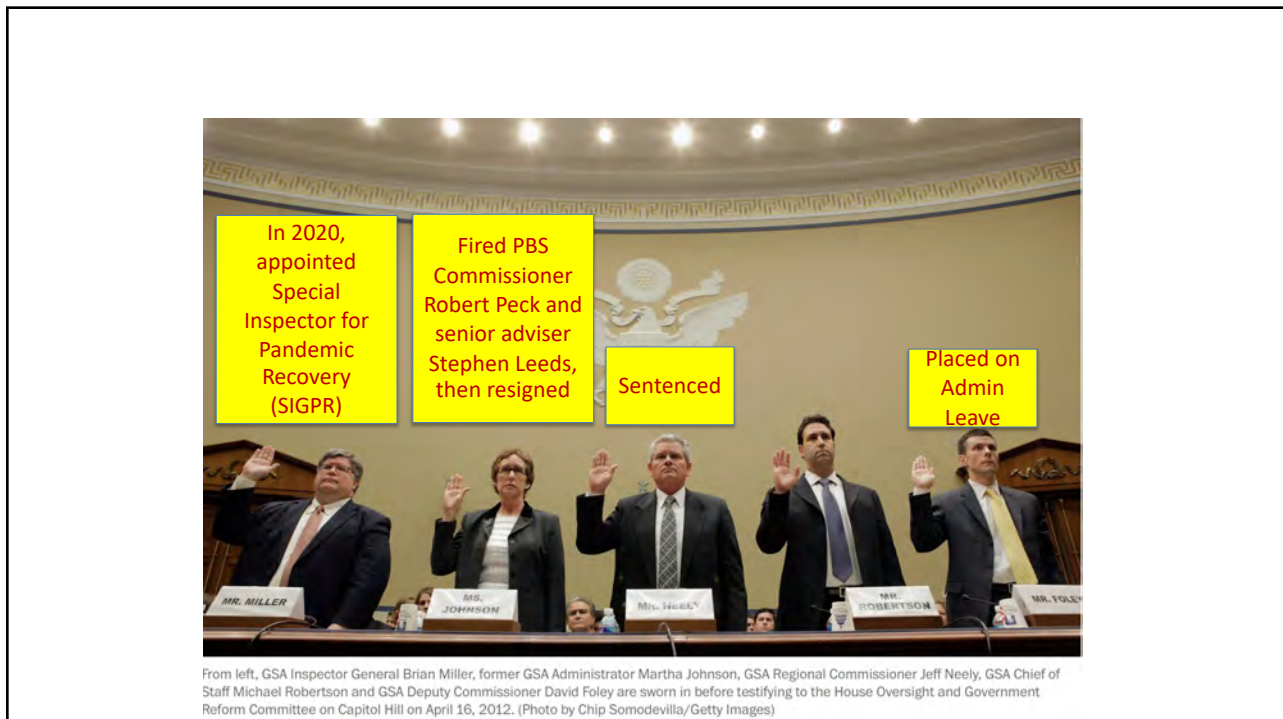
July 1, 2015 at 2:35 a.m. EDT

<https://www.washingtonpost.com/news/federal-eye/wp/2015/07/01/government-exec-who-famously-partied-in-a-hot-tub-on-taxpayers-dime-is-sentenced-to-prison/>

152



153



154

The Washington Post
Democracy Dies in Darkness



By [Lisa Rein](#)

July 1, 2015 at 2:35 a.m. EDT

All told, 11 managers involved in the Western Regions conference were fired, eight employees suspended and eight others admonished, reprimanded or warned. A new GSA chief appointed by President Obama moved quickly to rein in travel and conference budgets that had spiraled out of control: In four months, 50 conferences were canceled.

The rest of the government soon followed with strict limits on conference spending. Daily reimbursement rates for federal travel were frozen rather than increased, as is customary. Bonuses for top executives were cut, and a hiring freeze was put in place for all but essential hires.

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The Washington Post
Democracy Dies in Darkness



By [Lisa Rein](#)

July 1, 2015 at 2:35 a.m. EDT

Jeffrey Neely, the senior executive whose appearance in a video drinking wine in a hot tub at a Las Vegas hotel became the public face of a conference where hundreds of federal employees partied at taxpayer expense, was sentenced Tuesday to three months in prison.

The former regional commissioner for the General Services Administration's Pacific Rim real estate portfolio also will serve three months' home detention and pay \$10,000 in restitution and fines. In April, he pleaded guilty to one count of fraud against the government, admitting that he had billed GSA for a night's stay at the M Resort Spa Casino in Las Vegas, even though he was not on business for the agency's Public Buildings Service.

156

The Washington Post
Democracy Dies in Darkness



By Lisa Rein

July 1, 2015 at 2:35 a.m. EDT

Neely also admitted to prosecutors that he got GSA to pay additional false claims during his tenure, improperly failed to claim annual leave on certain dates and illegally charged the government more than \$5,000. And he acknowledged that he had both abused his position as a top government official and lied to the GSA inspector general's office, which released an explosive report in 2012 documenting abuses at the Western Regions Conference.

157

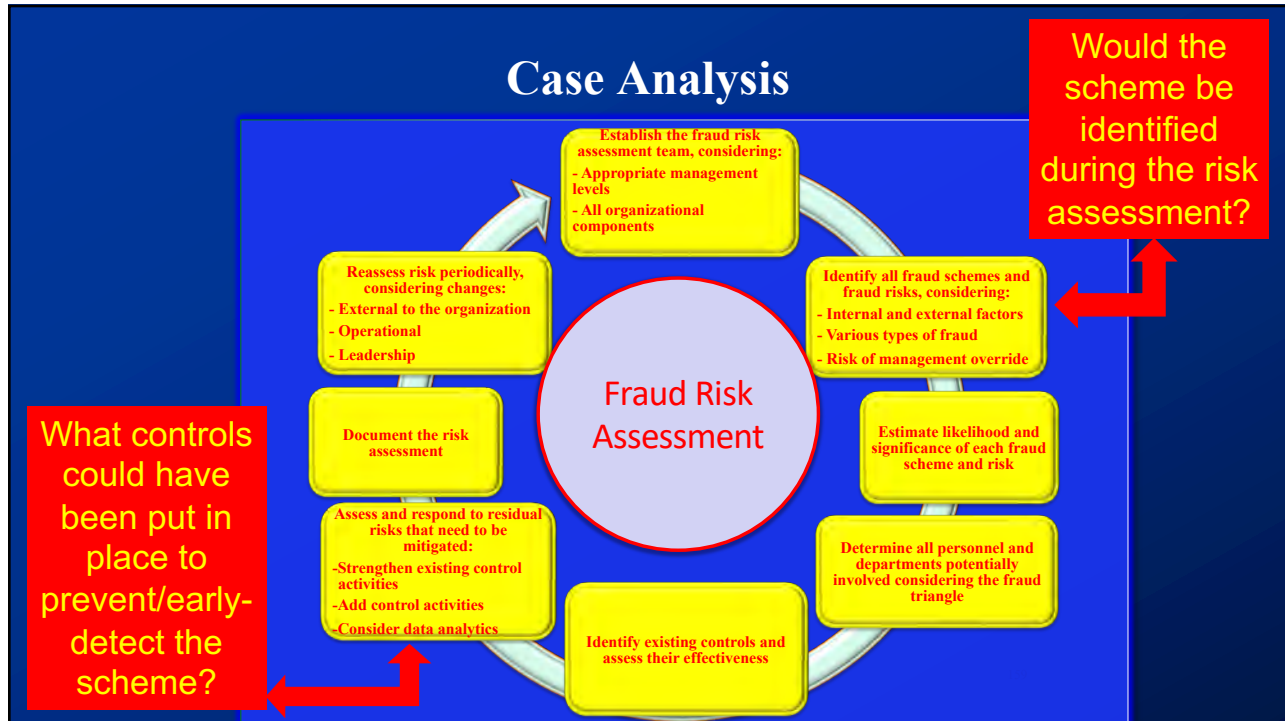
Case Analysis

WHAT WERE THE FRAUD RISK FACTORS?

Fraud Risk Factor: A characteristic that provides a *motivation/pressure* or *opportunity* for fraud to occur; a *rationalization/attitude* supportive of fraud; or an *indicator* that fraud might have occurred or might be occurring



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159

Relocation and Transitional Living Expenses

160

Case Study

Mistakes Were Made; Heads Rolled

161

Case Study

Cuyahoga Metropolitan Housing Authority

- In 1990, CMHA was an agency in trouble.
- The State Auditor had declared the 1989 books to be “unauditable.”
- Federal officials had forced the resignation of CMHA’s chief executive, George James
- New leadership was needed, the board decided

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Case Study

Cuyahoga Metropolitan Housing Authority

- Claire Freeman seemed like just what CMHA needed to turn itself around



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Case Study

Cuyahoga Metropolitan Housing Authority

- Claire Freeman seemed like just what CMHA needed to turn itself around
- Claire's credentials were impressive:
 - Deputy Assistant Secretary at DoD
 - Deputy Assistant Secretary at HUD
 - Undersecretary of Administration at HUD

164

Case Study

Cuyahoga Metropolitan Housing Authority

- Someone with this background doesn't come cheap, however.
- Terms of her contract (total value, about \$210,000 per year):
 - \$120,000 base salary ("highest paid housing boss in the country")
 - \$10,000 signing bonus
 - \$10,000+ "performance bonus" each year
 - \$10,000+ annual contributions to her tax deferred savings plan
 - 7% contribution to a basic benefit plan
 - 8% contribution to her retirement saving plan
 - Four weeks paid vacation (\$10,000 value)
 - "Relocation" and "transitional living" expenses
 - \$24,000 Chrysler LeBaron, plus full-time driver
 - Tuition reimbursement
 - \$360,000 life insurance policy
 - 75% disability insurance policy
 - \$250,000 to remodel her executive offices

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Case Study

Salary Comparison

	<i>CMTA</i>
<i>Operating Budget</i>	<i>\$42 Million</i>
<i>Properties</i>	<i>38</i>
<i>Residents</i>	<i>14,000</i>
<i>Employees</i>	<i>650</i>
<i>Director's Salary</i>	<i>\$120,000</i>

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Case Study

Salary Comparison

	<u>CMTA</u>	<u>NYC Housing Authority</u>
<i>Operating Budget</i>	<i>\$42 Million</i>	<i>\$1 Billion</i>
<i>Properties</i>	<i>38</i>	<i>330</i>
<i>Residents</i>	<i>14,000</i>	<i>600,000</i>
<i>Employees</i>	<i>650</i>	<i>15,000</i>
<i>Director's Salary</i>	<i>\$120,000</i>	<i>\$95,000</i>

167

Case Study

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<i>(1998 Salary)</i>	<i>\$218,000</i>	

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Case Study

	<u>CMTAA</u>	<u>NYC Housing Authority</u>
<i>Operating Budget</i>	<i>\$42 Million</i>	<i>\$1 Billion</i>
<i>Properties</i>	<i>38</i>	<i>330</i>
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<i>Director's Salary</i>	<i>\$120,000</i>	<i>\$95,000</i>
<i>(1998 Salary)</i>	<i>\$218,000</i>	

Salary **24 times larger**

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Case Study

	<u>CMTAA</u>	<u>NYC Housing Authority</u>
<i>Operating Budget</i>	<i>\$42 Million</i>	<i>\$1 Billion</i>
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<i>Director's Salary</i>	<i>\$120,000</i>	<i>\$95,000</i>
<i>(1998 Salary)</i>	<i>\$218,000</i>	

Salary **8.6 times larger**

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Case Study

Salary **43 times** larger

	<u>CMTA</u>	<u>NYC Housing Authority</u>
<i>Operating Budget</i>	<i>\$42 Million</i>	<i>\$1 Billion</i>
<i>Properties</i>	<i>38</i>	<i>330</i>
<i>Residents</i>	<i>14,000</i>	<i>600,000</i>
<i>Employees</i>	<i>650</i>	<i>15,000</i>
<i>Director's Salary</i>	<i>\$120,000</i>	<i>\$95,000</i>
<i>(1998 Salary)</i>	<i>\$218,000</i>	

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Case Study

Salary **23 times** larger

	<u>CMTA</u>	<u>NYC Housing Authority</u>
<i>Operating Budget</i>	<i>\$42 Million</i>	<i>\$1 Billion</i>
<i>Properties</i>	<i>38</i>	<i>330</i>
<i>Residents</i>	<i>14,000</i>	<i>600,000</i>
<i>Employees</i>	<i>650</i>	<i>15,000</i>
<i>Director's Salary</i>	<i>\$120,000</i>	<i>\$95,000</i>
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Case Study

Salary Comparison



	<u>CMHA</u>	<u>NYC Housing Authority</u>
<i>Operating Budget</i>	<i>\$42 Million</i>	<i>\$1 Billion</i>
<i>Properties</i>	<i>38</i>	<i>330</i>
<i>Residents</i>	<i>14,000</i>	<i>600,000</i>
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<i>Director's Salary</i>	<i>\$120,000</i>	<i>\$95,000</i>
<i>(1998 Salary)</i>	<i>\$218,000</i>	

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Case Study

Cuyahoga Metropolitan Housing Authority

- Claire took aggressive action to turn CMHA around
- Immediately fired 5 assistant deputy directors
- Hired Ronnie Davis as CMHA CEO (1995 wage and benefits package: \$378,965)
- Hired Dr. Kent Stephens as a consultant (Consulting contract payments of \$327,000 from 1992 to 1998)
- Hired Ira A. McCown, Jr., to plan and develop a low income home ownership program (which if successful would result in up to a \$375,000 bonus for McCown)

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Case Study

Cuyahoga Metropolitan Housing Authority

- Claire failed to inform the board, however, of two facts about Ira McCown:
 1. He had a felony conviction in connection with another housing deal
 2. Ira and Claire were romantically involved

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**Claire Freeman became Claire
Freeman-McCown in June 1997**



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Case Study

Cuyahoga Metropolitan Housing Authority

- McCown's "New Town/In Town" project did not succeed
- CMHA spent 2 years, thousands of hours, and \$600,000 on consulting fees on the project
- The reason the project failed was not complex
 - The homes to be bought by low income families ranged in price from \$100,000 to \$158,000 (compared to an average \$94,000 sales price in the area where the first set of houses was to be built)
 - To qualify to purchase a home under the program, an applicant would need to have income below \$34,300 to \$42,900
 - Income at those levels would not qualify for a mortgage of the size needed to buy one of the program's houses

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Case Study

Cuyahoga Metropolitan Housing Authority

Upon learning of McCown's prior felony conviction, the CMHA board ordered Claire to fire him and terminated the New Town/In Town project

The New Town/In Town project failure attracted the attention of the State Auditor, HUD, and

The Cleveland Plain Dealer

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Case Study

The Cleveland Plain Dealer

- While investigating the New Town/In Town project and the relationship between Claire and McCown, Plain Dealer reporters discovered an anomaly in Claire's compensation package
- They discovered that CMHA had been paying the mortgage payments on Claire's townhouse in Alexandria, Virginia
- Claire explained this as simply part of her "relocation" and "transitional living" expenses and fully covered under her employment contract

179

Case Study

Cuyahoga Metropolitan Housing Authority

- Someone with this background doesn't come cheap, however.
- Terms of her contract (total value, about \$210,000 per year):
 - \$120,000 base salary ("highest paid housing boss in the country")
 - \$10,000 signing bonus
 - \$10,000+ "performance bonus" each year
 - \$10,000+ annual contributions to her tax deferred savings plan
 - 7% contribution to a basic benefit plan
 - 8% contribution to her retirement saving plan
 - Four weeks paid vacation (\$10,000 value)
 - "Relocation" and "transitional living" expenses
 - \$24,000 Chrysler LeBaron, plus full-time driver
 - Tuition reimbursement
 - \$360,000 life insurance policy
 - 75% disability insurance policy
 - \$250,000 to remodel her executive offices

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Case Study

Claire's Townhouse



- Purchased in 1989 for \$225,000
- Claire moved to Cleveland in 1990
- CMHA began making the mortgage payments in 1994
- Payments since 1994 totaled almost \$100,000

181

Case Study

Cuyahoga Metropolitan Housing Authority

- Claire produced a letter--authorizing the payments--signed by three board members
- The board's lawyer said, "The board has profound reservations about the authenticity of this document."
- The board members say they never signed the letter

182

The Cleveland Plain Dealer [May 19, 1998]

CMHA head has to go
Freeman-McCown's sweet deal on moving expenses sours her reputation
beyond redemption



183

The Cleveland Plain Dealer [May 21, 1998]

CMHA's director suspended
without pay

Now the board owes us
answers

184

The Cleveland Plain Dealer [May 22, 1998]

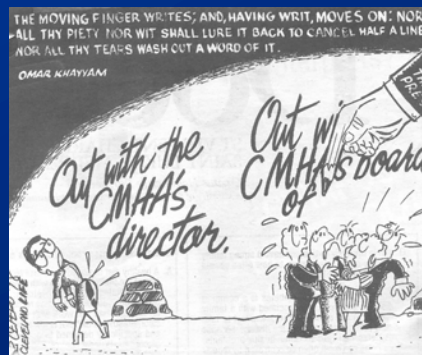
Stokes asks for federal probe of CMHA finances

185

Cleveland Life OHIO'S LARGEST AFRICAN AMERICAN WEEKLY
NEWS MAGAZINE [May 27, 1998]

Targets

Is America Taking Aim At African American Leaders?



186

The Cleveland Plain Dealer [May 30, 1998]

Suspended chief sues CMHA
Freeman-McCown says board violated
contract

187

The Cleveland Plain Dealer [September 30, 1998]

CMHA board fires suspended
chief exec
HUD suspension of Freeman-McCown left board
with no choice

188

The Cleveland Plain Dealer [December 31, 1998]

State audit questions \$6 million CMHA spent

“They have tarnished the financial health of this agency.
It puzzles me, and it distresses me.”

-- Claire Freeman-McCown

189

The Cleveland Plain Dealer [February 10, 1999]

CMHA ex-chief liable for spending

State auditors frame possible legal action

190

Key Witness for Freeman-McCown



- F. Aurelius McKanze
- Handwriting expert
- Testified that board member signatures on letter authorizing mortgage payments were authentic

191

The Cleveland Plain Dealer [October 2, 1999]

CMHA's ex-chief loses lawsuit

Freeman-McCown must pay back
\$462,200, jury finds

192

The Cleveland Plain Dealer [October 2, 1999]

- “F. Aurelius McKanze, later revealed to be Fulton McCants, testified that he was a certified document examiner with an extensive military and academic background.”
- “But his credentials turned out to be unsubstantiated, and a Plain Dealer inquiry revealed a 30-year history of convictions, mostly for forgery and theft offenses.”
- “Willis [Claire’s attorney] said that he thought McKanze did hurt Freeman-McCown’s case.”

193

The Cleveland Plain Dealer [October 27, 1999]

Bogus expert witness pleads
guilty to perjury

194

The Cleveland Plain Dealer [October 27, 1999]

Bogus expert witness pleads guilty to perjury

He testified CMHA letters were genuine;
faces up to five years in prison

195

The Cleveland Plain Dealer [October 27, 1999]

Bogus expert witness pleads guilty to perjury

He testified CMHA letters were genuine;
faces up to five years in prison

Lawyers for Freeman-McCown insisted that they did not know of McKanze's background, and said they got his name from the phone book, under "handwriting analysts and experts."

196

The Cleveland Plain Dealer [November 30, 1999]

Perjurer accused of lying again

Notes from doctors fake, prosecutors say

McKantz arrived at his sentencing hearing completely bald, and with letters from two physicians stating that he was dying of prostate cancer.

197

The Cleveland Plain Dealer [December 4, 1999]

Perjurer awaiting penalty is dead

“possible suicide” according to police

198

The Cleveland Plain Dealer [March 22, 2001]

Former housing director, deputy indicted

Accused of stealing funds slated for poor

199

Cleveland Life OHIO'S LARGEST AFRICAN AMERICAN WEEKLY
NEWS MAGAZINE [May 27, 1998]

FREEMAN. SCAPEGOAT?

Fed grand jury ignores role of Deloitte &
Touche, HUD officials and Auditor of State
Jim Petro in 8 year CMHA \$10.7 million
Title V spending controversy

200

Case Analysis

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201

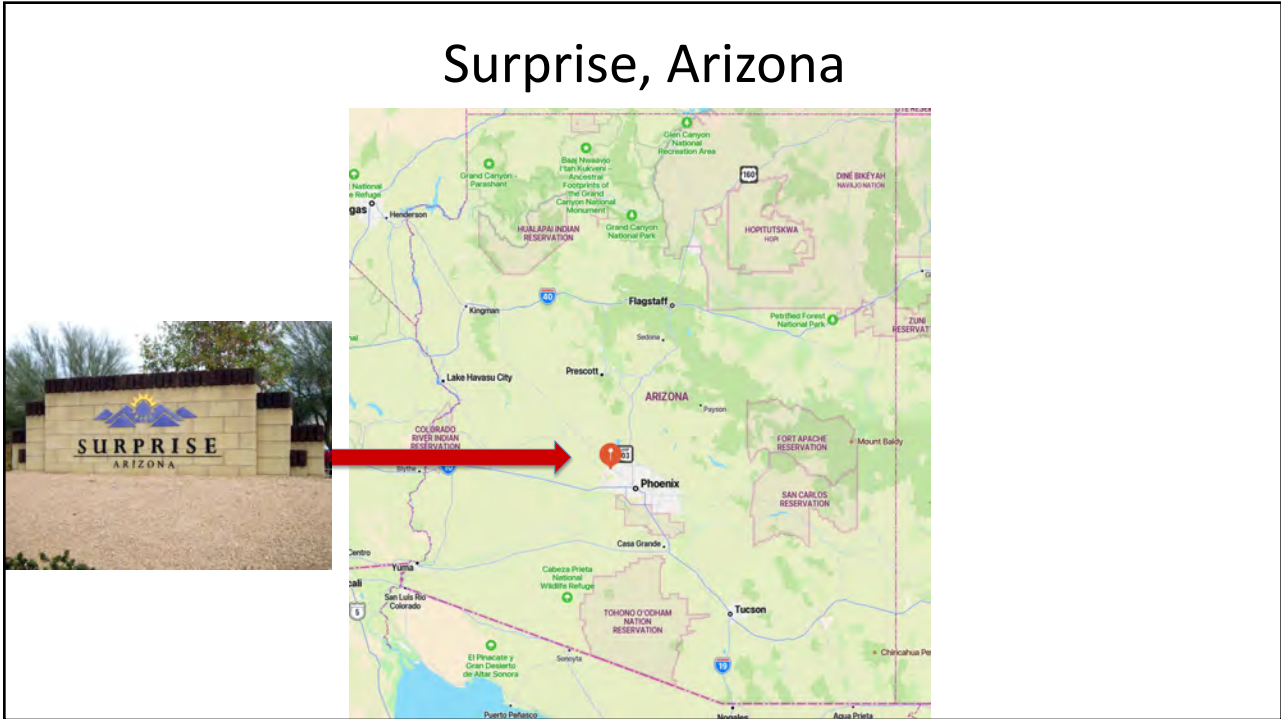
Case Analysis



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204

Pop Quiz

How much can someone steal from a \$3,000 petty cash fund?

- A. \$3,000 (duh).
- B. It depends.

205

Actually ...


- *On multiple occasions, Sanchez requested city checks for the purpose of increasing the amount of petty cash the city cashiers in her department kept in their drawers But, instead of passing on the money to the cashiers, she used her check-cashing authority to deposit the checks and pocketed the cash*

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

206

Actually ...

- *Petty cash is supposed to be used to reimburse employees for work-related expenses. The cashiers who worked under Sanchez told a city auditor that they were unaware of any petty cash increases in recent years*
- *The civil suit also alleges Sanchez stole money and checks from the city's daily deposit and then altered documents to disguise the missing cash and checks.*

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

207

Actually ...


- *Each day, tax auditor Pamela Pieri would go to the video-recorded counting room in City Hall, perform a count of the cash and check intake from the previous day and make note of the amount, according to the police report. She would then place the money and her report inside an unsealed bag in a safe.*
- *Sanchez would perform the secondary count of the deposit each day.*

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

208

Actually ...

- *Stacie McQuarrie, a backup cashier for the city and one of Sanchez's subordinates, told a Surprise police investigator that Sanchez would take the money out of the recorded counting room and conduct her count inside her old office — which was free from cameras — around the corner. Sanchez told McQuarrie she did this because she wanted to sit down.*
- *McQuarrie told the investigator the counting room had a chair and desk and she never understood why Sanchez took the money out of the counting room, but never asked because Sanchez was her supervisor. McQuarrie said the practice made her and her colleagues feel "uncomfortable."*

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

209

Actually ...

- *Sally Capuchino, the main city cashier, echoed McQuarrie's concerns to the investigator, and told him Sanchez would occasionally take the daily deposit to the bank herself, which was peculiar to the employees because the city uses an armored vehicle to transport cash and checks.*
- *Sanchez took money from the city through these methods or others for at least seven years, according to court documents and a city audit conducted after Sanchez was fired. The audit looked at seven years because the bank only had records dating back that far....*
- Amount stolen from 2007 to 2014: \$836,000

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

210

A Model Employee



Estella Sanchez, Maricopa County Sheriff's Office

Surprise, AZ Finance Director

In a performance evaluation submitted in July 2013, ... then-City Manager Christopher Hillman wrote, "Estella has impeccable integrity and is a model for ethical behavior." Current City Manager Bob Wingenroth, who was then the city's chief financial officer and assistant city manager, gave Sanchez an ethics rating of "meets with commendation."

Source: Jessica Boehm, The Republic | azcentral.com, June 22, 2016 [azcentral.](#)

211

Actually ...


- *Sally Capuchino, the main city cashier, echoed McQuarrie's concerns to the investigator, and told him Sanchez would occasionally take the daily deposit to the bank herself, which was peculiar to the employees because the city uses an armored vehicle to transport cash and checks.*
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Source: Jessica Boehm, The Republic | azcentral.com, June 22, 2016 [azcentral.](#)

212

Actually ...

- *Sally Capuchino, the main city cashier, echoed McQuarrie's concerns to the investigator, and told him Sanchez would occasionally take the daily deposit to the bank herself, which was peculiar to the employees because the city uses an armored vehicle to transport the cash.*
- Sanchez **worked for the city from 1997 to 2014.** *Sanchez worked for the city for at least seven years, according to court documents and a city audit conducted after Sanchez was fired. The audit looked at seven years because the bank only had records dating back that far....*
- Amount stolen from 2007 to 2014: \$836,000

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

213

How did she get caught?


- *After discovering some "red flags" in the city's accounts payable department — including a \$3,000 check requested by Sanchez for a petty cash increase — [Surprise Auditor Ramon] Ramirez decided to conduct an unannounced audit of the city cashier desk, which Sanchez oversaw.*
- *Ramirez conducted cash counts of both cashier drawers on Feb. 27 and found no discrepancies. When asked about the \$3,000 petty cash increase, both cashiers indicated they knew nothing about an increase.*
- *Ramirez proceeded to ask the cashiers if there was any other cash in the office, and the cashiers directed him to a deposit bag in the safe, which contained about \$1,900. Capuchino told Ramirez that Sanchez brought the money in earlier in the day, stating it was petty cash to be deposited, according to the report.*

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

214

How did she get caught?

- *Ramirez contacted Sanchez about the \$1,900 in the deposit bag and the \$3,000 check she requested and cashed.*
- *Sanchez told Ramirez she thought about increasing petty cash, but decided not to and instead added the money to the safe to be deposited. According to the police report, when Ramirez asked about the other \$1,100, Sanchez began shaking her head and said, "Please, Ramon."*
- *Ramirez asked if the money was anywhere in the city, to which Sanchez replied, "no." When he asked if there was a reason the money was missing, she said, "I'm not going to lie, no."*
- *Ramirez told police investigators Sanchez proceeded to ask him what was going to happen to her. She also told him she had never removed money from the city before, according to the police report.*

Source: Jessica Boehm, The Republic | azcentral.com, June 22, 2016 

215

Jail, restitution, and community service


- *[Sanchez] will spend a year in jail and serve at least five years probation for stealing from the city and committing fraud.*
- *Sanchez is required to pay back the \$836,000 a city audit determined she stole from the city. She must pay that amount to the city's insurance group, the Arizona Municipal Risk Retention Pool, which covered the losses for the city.*
- *She must also serve 40 hours of community service.*
- *Sanchez now works for a landscaping company.*

Source: Jen Fifield, The Republic | azcentral.com, September 18, 2018 

216

Let's close those barn doors now that the horses are gone.

- The City Council funded an additional position to ramp up internal controls and the city has decreased the number of petty cash accounts within the city. (But according to the city's bookkeeping website, there were 13 distributions made to active petty cash accounts in fiscal 2016, totaling more than \$14,000.)
- The city also reduced the number of cash handling sites and the amount of money handled at each location. Reviews of the city's financial software are also performed more frequently.
- The city also established an Internal Audit Committee in response to the incident.

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

217

Let's close those barn doors now that the horses are gone.

- *Councilman Skip Hall, who also serves on the [new audit] committee, said he is confident the committee and the city's new auditor will prevent another major embezzlement fiasco because a "good audit environment" discourages people from stealing.*

Source: Jessica Boehm, *The Republic* | azcentral.com, June 22, 2016 

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Case Analysis

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Case Analysis



220

Good-Bad-Ugly End Thoughts

- Fraud happens
- But, it can be managed
- Study fraud schemes and ask, “Can that happen in/to my organization?”
- Be alert for red flags
- Perform risk assessments
- Maintain a high degree of professional skepticism

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The Conference
That Counts
AGA - IIA - ISACA

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