

Towards Pervasive GRC



*History and Future of Fraud
True Stories
Sherif M. Fakhry Younes*

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History & Future of Fraud True Stories



Sherif Fakhry Younes



*Director of Internal Audit & Risk
Management. TRA – U.A.E Government*

Sherif.fakhry@tra.gov.ae

Authorized Trainer. (ACFE) U.S.A

sherif@fraud-affairs.com

Lawyer & Certified Arbitrator-

[Egypt – Sharja - U.A.E](#)

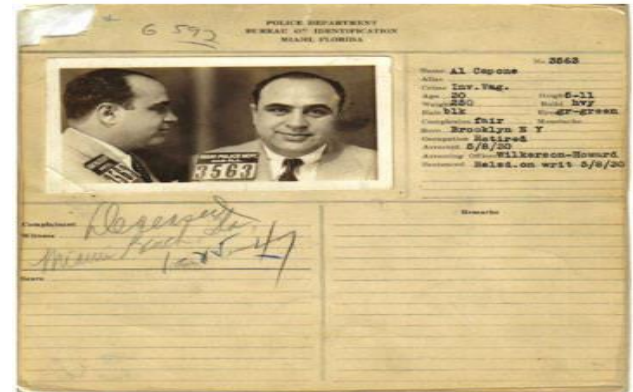
History of Fraud and Organized Crime

(1) Al Capone Family 1920-1939

AL Capone is an American gangster who led a crime syndicate in Chicago, he is trading in **Liquor, gambling, prostitution** and many other illegal activities from 1920s to 1931.



AL Capone have a clean criminal record, he did his best to promote himself as a U.S.A public figure even he was deeply involved and behind many criminal activities.



Al Capone activities

He became a highly visible public figure as he made donations to various charitable endeavors using the money he made from his criminal activities to clean his reputation.

AL Capone did not file any tax returns, own property, endorse checks, maintain bank accounts or give receipts so his income could not be accounted.

He is almost financially invisible.



AL CAPONE

A smile will get you pretty far, but a smile and a gun will get you farther



AL Capone investigation and Conviction

Frank Jury Wilson who investigated AL Capone's family activities cannot find any proof for illegal activities but only income tax evasion could be considered as a legal violation. The U.S.A government decided that it was more likely material for a conviction of Al Capone Family.

In 1931 AL Capone was convicted on federal charges of tax evasion and sentenced to Al Catraz prison.

In 1939 He was released sick and poor.



Other Recent Famous Crimes

History of Fraud and Organized Crime

(1) Charles Ponzi

Charles Ponzi scheme was most likely stolen from William F. Miller, a Brooklyn bookkeeper who used the same scheme to make \$1 million. Ponzi paid his oldest investors with money from his newer investors.



The money invested in Ponzi would be enough to cover 160 million postage coupons, but only 27,000 were actually in circulation. Bernie Madoff would use the same scheme to lose 40 times as much.

Ponzi spent the rest of his life in jail, running, imprisonment and exile. He died in poverty in 1949.

(2) Enron Collapse

With revenues exceeding \$100 billion and the distinction of being named by Fortune as “America’s Most Innovative Company,” Enron was a seemingly indestructible energy giant during the 2000

Jeffrey Skilling, who served as president COO and CEO, along with a staff he assembled, hid billions of dollars of debt through poor financial reporting, accounting loopholes and the use of special purpose entities. Andrew Fastow COO, deceived the board of directors about the company’s accounting practices.

They were convicted 24-year prison sentence for Skilling and six-year sentence for Fastow.



(3) World.com False Accounting

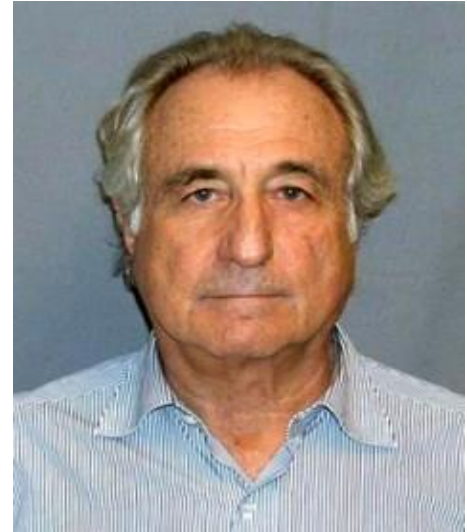


CEO Bernard Ebbers, plan was to compensate for the downturn of the telecommunications industry in 2000 and World.com's declining stock included the use of fraudulent accounting methods in order to deceive investors into thinking the company was in good health.

The underreporting of line costs and inflation of revenues accumulated \$3.8 billion in fraud and ended with the company's bankruptcy. He was sentenced to 25 years in prison for conspiracy, securities fraud and filing false statements with regulators

(4) Bernie Madoff-Ponzi Scheme

The word “Ponzi” was introduced into America’s lexicon in late 2008 when Madoff was arrested and charged with securities fraud. The former lifeguard, sprinkler installer and chairman of NASDAQ managed to build a multi-billion dollar investment firm with false trading reports.



Investors lost billions of dollars due to the scandal, In 2009, he pled guilty to 11 federal crimes including securities fraud, money laundering, and theft from an employee benefit plan.

The penalty: 150 years in prison

(5) In Stock Trading Scandal

Martha Stewart, sold about \$230,000 of the company's stock a day before an experimental cancer drug failed to gain FDA approval.

The Founder Samuel Waskal, who advised friends and family to sell stock and attempted to sell his own stock prior to the announcement, Waksal was arrested for insider trading charges. He pled guilty to charges of bank fraud, securities fraud, obstruction of justice and perjury.

He was sentenced to a seven-years, three-month prison sentence in 2009, but he was released in 2009.



(6) In Adelphia Collapse

At the time of its bankruptcy in 2002, Adelphia was the fifth-largest cable provider in the U.S., and in 2003, it generated more than \$3.6 billion in revenue – that's just \$1.3 billion more than the off-balance-sheet debt

John Rigas, the founder, and Timothy Rigas, his son who ran the company, obstruction of justice and perjury. They were accused of embezzling the money from corporate investors and using corporate funds as their own.

They are currently serving 15-and 20-year prison.

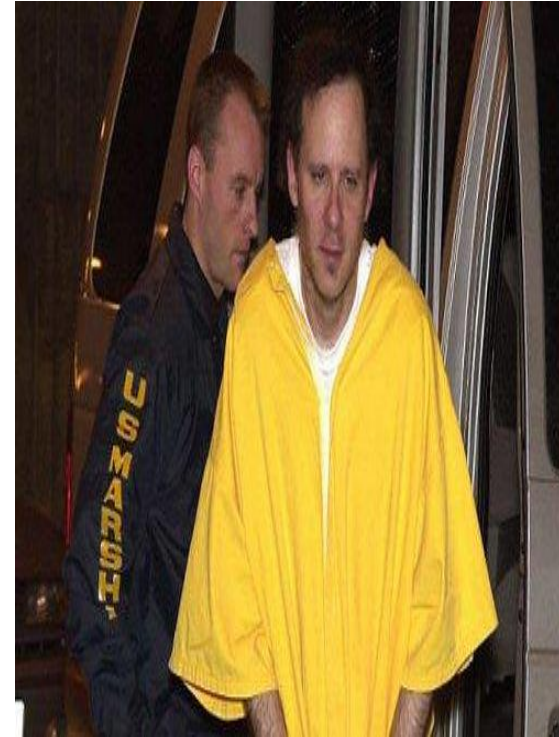


(7) In Martin Franklel Fraud Case

Martin Frankel is a classic white collar criminal, he convinced a bunch of rich people to invest their money with him. Frankel used astrology to make his financial trading decisions,

He was caught several times for improper trading and embezzlement, and had to change his name to David Rosse to continue his thievery. Rosse" stole \$200 million from several Midwest insurance companies.

In 2004, he was sentenced to 16 years in prison.



(8) In Jerome Kerviel

Jerome Kerviel was trading at a French bank called Societe Generale in (2007), He was trading with tens of billions at a time, and hiding profits. He would also make fake trades, and then pretend they were accidental, but then replace the trade via another account.



*Kerviel was caught in 2008. The French briefly released him, but then charged him with fraud. In a few short years, Kerviel had managed to lose \$6.7 billion of investors' money
In 2010 he was convicted and sentenced to three years in prison, and restitution of the money he had lost.*

(9) In jack Abramoff

Abramoff was a ubiquitous lobbyist in Washington from the 1980's-2000's. "Lobbyist course being an Old English manner of pronouncing "serial briber and defrauder



In 2006, Abramoff pled guilty to fraud, conspiracy and tax evasion after cheating a casino out of an estimated \$85 million. On top of it, Abramoff got caught for bribing representatives -Republican Ohio Representative Bob Ney, who was convicted of accepting Abramoff's bribes. He was sentenced to 70 months after a fake transfer to qualify for a \$60 million loan

(10) In Tyco International

A global manufacturing company based in Switzerland, became embroiled in a white collar crime scandal in 2002. The CEO Dennis Kozlowski and CFO Mark H. Swartz were accused of theft of over \$150 million from the company.

In 2005, during their retrial, Kozlowski and Swartz were convicted of over 30 counts of theft and fraud.

They were each sentenced to eight years in prison. Tyco was forced to pay \$2.92 billion to defrauded shareholders.



Future of Fraud and Organized Crime

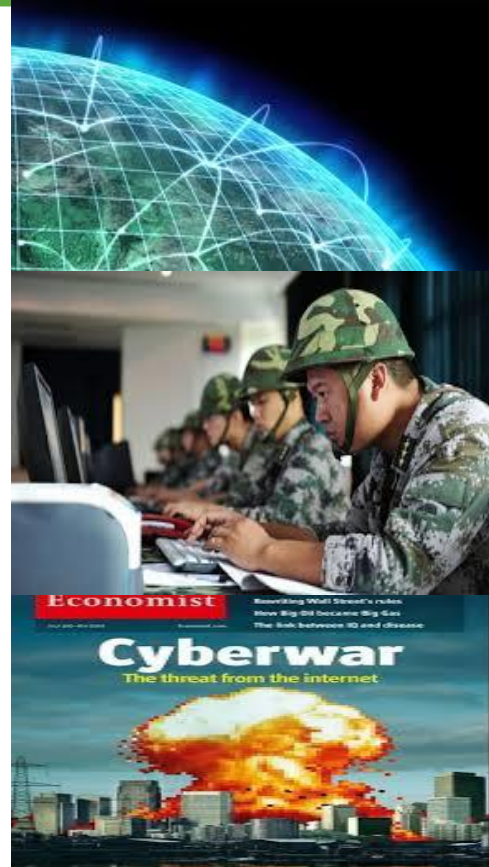
Future of Organized Crimes

- **Moving business** from U.S.A to Cuba, Columbia and Caribbean.
- **No money laundering** only capital transfer.
- **Moving money** to Swiss Banks and Virgin Islands.
- **Worldwide strategic alliance** Russia, Turkey, Mexico and Jamaica.



Future of Fraud is “Cyber Crimes”

- 1) **Cyber Crimes** usually are located internationally which make it more difficult to detect or prevent.
 - 2) **Cyber Crimes** are normally targeted a specific person Financial or strategic entity.
 - 3) **Cyber Attacks** have multi-faces in their types, tools, techniques and time, it is a combination of crimes.
- “Cyber Crimes” is a War Without Rules**





Virtual Services *Government Summit 2013*

حكومة
دبي
EMIRA
IDENT
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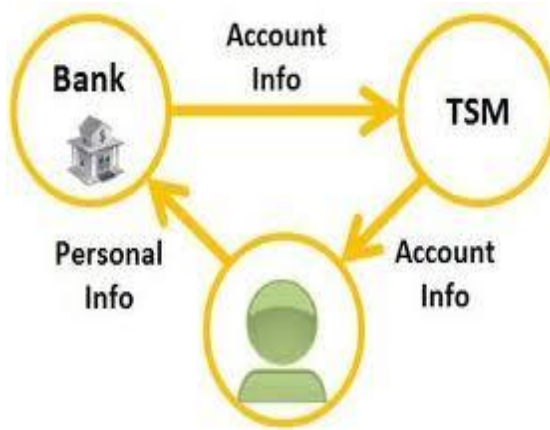
الحكومة الذكية
mgovernment

“I want a government that toils twenty-four hours a day, just like airlines, I want it to be close to people, welcoming all clients akin to that welcome received by hotels’ guests; I want the citizens to be able to process all their government transactions in one place, on a **one-mobile stop shop**”



Trusted Service Manager (TSM)

Shopping & Services



Electronic Payment



Turning Mobile device into Electronic Wallet

1) **Electronic Wallet Application:**

User Interface Applications using Personalized Account Information exactly the same like credit cards.



2) **NFC Near Field Communication:**

Enable mobile devices to send account information to contactless payment reader to read contactless tags.



3) **Secure Element:**

*Smart Card Module is like “SIM Card”, **S**ubscriber **I**dentify **M**odule used to secure access of applications and data.*



Virtual shopping



Audit and Fraud Examination

Global Auditing Information Network (GAIN) is a benchmark services offered by Internal Auditors Institute (IIA).

GAIN reports that only 2% of total auditors are fraud auditors !

The Key issue is how can we build our capabilities in Fraud **prevention**, **detection** and **investigation**.



Why Internal Audit might fail to detect fraud

- 1. Pushback from Management.**
- 2. Downgrading of Audit function.**
- 3. Low Budget or under resourcing.**
- 4. Lack of accountability environment .**
- 5. Lack of business fraud understanding.**
- 6. No qualified resources to detect fraud.**
- 7. No clear fraud policy and no fraud reporting .**
- 8. No risk management or compliance activities.**

The Most Successful approach

- **Hotline:**
 - **Good Advertising Campaign.**
 - **Trained Native speaker.**
 - **Tracking Complains.**
- **Internal human Resources Information.**
- **Electronic Monitoring /Social Media / E-mails.**
- **Internal Audit/ Risk Management / Compliance.**
- **Technical approach to detect fraud cases.**



ACFE Law-Enforcement Partnership



ACFE Law-Enforcement Partnership :

- ***The U.S Secret Service.***
- ***The U.S Marshals Service.***
- ***The City of London Police.***
- ***Western Australia Police.***
- ***The U.S Department of Defense.***
- ***The Federal Bureau of Investigation(FBI).***
- ***The U.S Government Accountability Office.***





**“with great power
comes great responsibilities”**
(Franklin Delano Roosevelt, 1882-1945)

Towards Pervasive GRC



Thank You