



LANSING CHAPTER OF THE ASSOCIATION OF CERTIFIED FRAUD EXAMINERS

Introduction

The LACFE Spring Conference is one month away, have you registered yet?

Check your inbox for an email from Chapter President, Mark Lee, or see the section below for more information.

In Conducting Internal Investigations you will learn how to conduct an internal investigation from start to finish and lead an internal investigation with accuracy and confidence by gaining knowledge about:

- Relevant Legal Aspects of Internal Investigations,
- Using Computers in an Investigation,
- Collecting and Analyzing Internal and External Information,
- Interviewing Witnesses, and
- Writing Reports.

Attendees will earn 16 hours of CPE. The Spring Conference is May 3rd through May 5th.

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A Different Fraud Podcast...

Fraud Talk Podcast didn't have a new episode this month, so I've substituted an episode from AARP's *The Perfect Scam Podcast*

Pet Scams Are Big Business

Danny searches for a new four-legged best friend after his beloved Weimaraner dies of cancer. Alison looks for a second Maine coon to keep her current cat company after a difficult move. Both families find themselves caught in the web of online con artists riding the rising wave of pandemic demand for pets.

<https://www.aarp.org/podcasts/the-perfect-scam/info-2021/pet-scam.html>

UPCOMING EVENTS

LOCAL:

Lansing Chapter of the ACFE – Spring Fraud Conference

May 3 – 5, 2021

Speaker – Janet McHard, CFE

Topic – "Conducting Internal Investigations"

More information below!



Michigan Chamber of Commerce

Virtual – Chamber Day 2021

April 21, 2021

8:30 am

Learn more: https://www.michamber.com/signature_events/chamber-day/

Michigan Chamber of Commerce

Virtual – ATHENA Series

May 18, 2021

9:00 – 10:00 am

Learn more: https://www.michamber.com/signature_events/michigan-athena-conference/

NATIONAL:

ACFE

Virtual Conference – 32nd Annual Global Fraud Conference 2021

June 21 - 23, 2021

(early registration ends April 7, 2021)

Learn more: <https://www.fraudconference.com/>

ACFE

Did you know about the 10 CPE you can earn by taking the quizzes in the back of Fraud Magazine?



Online Fraud Magazine CPE Quizzes

2019 and 2020 are available now (10 CPE for each year)

Learn more: <https://www.acfe.com/selfstudy.aspx?zid=2c92a0fc6a07e3d3016a272b1cd11844>

If you have an event that you would like posted in our newsletter or if you wish to share an article, please contact Jennifer Ostwald at jenny1661@hotmail.com

Spring Fraud Conference

*The Lansing Chapter of the
Association of Certified Fraud Examiners*



Virtual Spring Fraud Conference

Conducting Internal Investigations

Presented by Janet M. McHard, CFE, CPA

Monday, May 3, 2021
Tuesday, May 4, 2021
& Wednesday, May 5, 2021

Attendance is limited by the ACFE, so please register early!

CONFERENCE DETAILS	
Registration Login:	9:45 am
Times:	*see Course Outline
Conference Fee:	\$200 Chapter Members, \$235 non-members
Registration:	Through Wednesday, April 28, 2021
CPE Credit:	16 Hours (3 days)

Conducting Internal Investigations

Presented by Janet McHard, CFE, CPA

Conducting an internal investigation can be a difficult task. An investigation into employee wrongdoing can be costly, disruptive, and time-consuming; and can lead to a variety of legal problems and other unexpected complications if it is not conducted with the utmost care and confidentiality. However, a well-run internal investigation can enhance a company's overall well-being and can help detect the source of lost funds, identify responsible parties, and recover losses. It can also provide a defense to legal charges by terminated or disgruntled employees. But perhaps most important, an internal investigation will signal to other employees that the company will not tolerate fraud.

Conducting Internal Investigations will prepare you for every step of an internal investigation into potential fraud, from receiving the initial allegation to testifying as a witness. In this course, you will learn how to lead an internal investigation with accuracy and confidence by gaining knowledge about various topics, such as relevant legal aspects of internal investigations, using computers in an investigation, collecting and analyzing internal and external information, interviewing witnesses, and writing reports.

Questions? Please e-mail: president@lansingacfe.com or vicepresident@lansingacfe.com

Register Online: www.lansingacfe.com



Janet McHard, CFE, CPA/CFF
Founding Partner,
McHard Accounting Consulting, LLC

Janet M. McHard is the Founding Partner of McHard Accounting Consulting, LLC, a firm specializing in forensic accounting, fraud prevention and accounting reconstruction. Together with her partners and staff, McHard conducts forensic and investigative accounting in matters concerning alleged white-collar crimes, embezzlements, employee theft and other disputed accounting issues. She provides expert witness testimony and consulting expert services in cases where fraud is suspected.

McHard is a Certified Fraud Examiner (CFE), a certification bestowed upon examination by the Association of Certified Fraud Examiners (ACFE). She holds a CPA in the State of New Mexico. She is Certified in Financial Forensics by the American Institute of Certified Public Accountants, a designation awarded based on education and experience.

McHard has received special training in fraud prevention and investigation from the ACFE, the National Association of Certified Valuation Analysts and through the University of New Mexico's Financial Investigators Certificate Program. McHard provides assistance, including expert testimony, in the areas of fraud and forensic accounting. She also has experience in database management and class action administration. She has advanced knowledge in MS Access, Excel and Word.

Previously, she was a senior manager at the regional full-service accounting firm Meyners + Company, located in Albuquerque. She was also a staff accountant and litigation support specialist with an international accounting and consulting firm. Her background also includes work as a legal secretary and administrative assistant for a law firm and business manager for a medical office.

McHard holds a Bachelor of Arts from the University of New Mexico as well as an MBA from the University of New Mexico's Robert O. Anderson Graduate School of Management. She is a member of the National Board of Advisors and past president of the Board of Directors of Keshet Dance Company. She was previously a board member of the Albuquerque Softball/Baseball Hall of Fame and has volunteered her time with the American Softball Association and the New Mexico United States Specialty Sports Association. She is a member of Women in Leadership of the United Way of Central New Mexico.



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The Fraudster's Gambit: Chess Fraud on the Rise

March 11, 2021

Hallie Ayres

<https://acfeinsights.squarespace.com/acfe-insights/fraudsters-gambit-chess-fraud-rise>

Throughout 2020, the number of online chess platform users surged, in part because professional players were forced online due to social distancing restrictions that made in-person tournaments impossible, but also because of a horde of novice players who discovered chess as a new quarantine hobby. This vast swath of players only increased after the release of Netflix's popular limited series "[The Queen's Gambit](#)," which tells the story of a young woman facing off against much older masters.

According to [the Guardian](#), Chess.com, the largest of the online chess platforms, tallied 12 million new users this year, up from 6.5 million new users in 2019. Along with all the new users, however, site administrators noticed a spike in suspicious gaming activity, prompting investigations with chess and legal experts, as well as computer scientists, to monitor gameplay patterns that may hint at a player using a computer program for assistance in their matches. In comparison to 2019, when nearly 6,000 users each month were banned from Chess.com due to cheating infractions, the site logged almost 17,000 accounts banned due to cheating in August of 2020 alone.

How to curb cheating in chess

Chess has long been a hotbed of suspected cheating scandals, with players using [tactics ranging](#) from:

- Hidden earpieces connected to distant consultants playing along with supercomputers
- Players leaving gameplay to consult software on their cellphones during bathroom breaks
- Purposefully playing poorly in order to win prize money from a lower-tier bracket
- Betting with opponents on a certain outcome and then privately splitting prize money
- Using people planted in the audience to convey signals throughout the match

In live tournaments, players must now comply with rules that include going through metal detectors, having their phones confiscated before entering the tournament, and facing searches of clothing and bags.

With the onset of digital gameplay, players have been charged with creating fake accounts to play against in order to boost their own ranking, and scandals involving the use of supercomputers during gameplay have become much more common. But the typical in-person tactics to avoid cheating are not effective when players are sitting in their own homes without supervision by tournament officials.

Where there's money, there's an opportunity for fraud

To combat online cheating, tournaments have now enforced rules that compel players to maintain honest gameplay. For example, players may be required to:

- Grant remote access to their devices
- Be recorded by a number of cameras set up in their rooms
- Have an official watch them in their home during the match
- Not be allowed to take breaks during gameplay

Since Chess.com hosts tournaments with monetary prizes, the site has poured significant effort into curbing cheating tactics by using statistics to track irregular moves within gameplay. Kenneth Regan, a computer scientist and expert chess player, devised a model now used by the [International Chess Federation](#) (FIDE) to detect patterns that may allude to the use of cheating software. “The pandemic has brought me as much work in a single day as I have had in a year previously,” he [told the Guardian](#).

FIDE President, Arkady Dvorkovich, [speaking at an online chess event](#) in July, said “Chess is still suffering because of fraud... There is no real doping in chess, but there is computer doping that hits us. Fighting it is one of the priority tasks for FIDE.”

As more business continues to be conducted online as a result of the shift to virtual systems that was brought about by the pandemic, Dvorkovich's sentiments apply for fraud examiners across the board — not just the chess board! While the tips offered above focus on cheating in online games, it's crucial to remember that any exposed weaknesses in online systems, whether exploited by chess players or by bonafide scammers, are important lessons to be learned and applied in all aspects of the anti-fraud profession.

4 Scams That Shook the Art World

March 4, 2021

Hallie Ayres

<https://acfeinsights.squarespace.com/acfe-insights/4-scams-shook-art-world>

Reports of all types of fraud have skyrocketed over the past year, and with all the bizarre twists and turns, and the arts industry was not immune. As commerce migrated online for auction houses and art fairs, tax evasion, money laundering and wire fraud grew more common in the fine arts business.

The art market faces unique anti-fraud challenges due to the nature of how transactions are typically managed. In many cases, [auction houses allow](#) for both buyers and sellers to keep their personal identifying information private, often using simple monikers like “private collection” instead of someone’s name. This can lead to difficulty in investigating potential fraudulent transactions or dubious actors. Artworks can also be sneaky mechanisms by which fraudsters can operate money laundering schemes under the radar of anti-fraud monitors.

While some of the year’s art fraud cases were a result of scammers taking advantage of the vulnerabilities in the system that COVID-19 exposed, a lot of major art world fraud news came after years-long schemes were finally uncovered and fraudsters were finally charged. Here are four major stories that erupted onto the scene.

Auction house faces tax evasion convictions

In April, Christie’s auction house agreed to pay \$16.7 million to the Manhattan District Attorney after being found guilty of evading the collection of New York sales tax on private sales of artworks, totaling \$189 million, between 2013 and 2017. The payment is split into two parts: a lump sum of \$10 million, and then \$6.7 million for penalties, sales tax and interest. The violations spanned Christie’s private sales department and its offices outside of the United States: the auction house was discovered to have failed to collect sales tax on works delivered to buyers in New York, even if the work was sold by an overseas office.

Part of Christie’s infractions stemmed from incorrect information given to the company back in 2013 when a lawyer claimed that the auction house did not need to collect New York tax on transactions made out of their foreign offices. The company’s tax and accounting officials allegedly

realized their error in 2015, but internal documents show that the company attempted to cover up their mistake rather than rectify it. Going forward, the auction house's tax manager logged private sales as sales from their New York office in an effort to evade an external audit.

A spokesperson for Christie's [told Artnet News](#), "For the past several years, Christie's has worked in cooperation with the Manhattan District Attorney's Office to resolve specific issues created as a result of incorrect tax advice Christie's received regarding the application of sales tax obligations for specific non-US affiliates. The company has since reviewed its advice and internal processes to ensure compliance with relevant tax law. This settlement agreement brings the matter to full resolution."

Taxpayers fleeced out of millions

Christie's wasn't the only auction house to face scrutiny for tax evasion: Sotheby's [was hit](#) with two filings, in October and in November of 2020, alleging the company assisted a collector to avoid \$27 million in sales taxes between 2010 and 2015. Both filings, registered by the New York State Attorney General, [claim that](#) Sotheby's accepted and provided resale certificates to an unnamed collector despite knowledge that the collector was not planning to resell the work. According to the filing, about thirty Sotheby's [employees knew](#) of the fraudulent resale certificate scheme, which granted benefits to the collector that are normally given only to dealers.

In [a statement](#), New York State Attorney General Letitia James said, "Sotheby's violated the law and fleeced New York taxpayers out of millions just to boost its own sales. This lawsuit should send a clear message that no matter how well-connected or wealthy you are, no one is above the law." Sotheby's infraction comes on the heels of a 2018 complaint in which Sotheby's provided evidence that led to a payment to the Attorney General of \$10.75 million from Porsal Equities, a company that had evaded taxes on nearly \$50 million worth of art purchased through Sotheby's.

Phony pop art plagues the market

Since the advent of internet commerce, scammers have been able to get away with selling fake art or memorabilia claiming to have a more impressive provenance than is reality. [Experts note](#) that art prints are a common tool that scammers use to make money with unsuspecting online buyers. Prints are relatively easy to counterfeit and garner low enough prices that buyers tend to be newer collectors with a less discerning eye for spotting a fake. With e-commerce, buyers do not have to jump through the hoops to validate their phony works that they'd be subjected to if going through

an auction house or a reputable dealer. Now, fraudsters can simply list a work with a fake certificate of authenticity on an online platform and expect it to be sold. Throughout this year, as anti-fraud fighters cracked down on other types of virtual fraud aggravated by the massive switch to virtual transactions due to the pandemic, a number of fraudulent art schemes were discovered and held accountable.

In July, Philip Righter, an art dealer from West Hollywood, California, [pled guilty](#) to wire fraud, tax fraud and aggravated identity theft after investigations into his practice found he had sold nearly \$6 million worth of paintings between 2016 to 2018 by falsely claiming they were by famous pop artists. In his plea agreement, [Righter admitted](#) to not only selling fake art but also using counterfeit works as collateral for loans he defaulted on. In addition, Righter acknowledged that he had used works as income tax write-offs, amassing more than \$100,000 in tax refunds by lying about donating art to charity.

The anachronistic paint blunder

Also in July, the [FBI raided](#) a home in Michigan after an investigation into 60-year-old Donald Henkel, who is accused of having orchestrated a scheme since 2016 wherein he created paintings that he sold to collectors as forgotten or missing works by well-known American artists. The FBI worked with art forgery experts who were tipped off to the scheme after a buyer grew suspicious of a purchased work that was absent from any archive of the purported artist's work. After reaching out to experts to examine the painting, [they discovered](#) that the canvas contained acrylic paint, a material that did not yet exist at the time the alleged artist of the work had been alive. Subsequently, the FBI received a [warrant](#) for the raid on the grounds of suspected mail and wire fraud.

The men who trafficked in fake documents

Lastly, on September 22, the U.S. Department of Justice [announced](#) the arrest of two Manhattan-based antiquities dealers: Erdal Dere, 50, the owner of Fortuna Fine Arts Ltd, and his business partner, Faisal Khan, 47. The two men have been charged for maintaining a five-year fraud scheme of selling antiquities by fabricating provenance records.

According to the indictment, Dere was also charged with identity theft "for his misappropriation of the identities of deceased collectors who were falsely represented to be the prior owners of the antiquities." Khan [is alleged](#) to have assisted Dere in acquiring new antiquities to sell, scouting

potential buyers and falsifying records for these buyers. Fortuna Fine Arts [did not](#) maintain a website or list inventory publicly, allowing Khan and Dere to sell directly to known buyers from 2015 until their arrests.

As quoted in the indictment, FBI Assistant Director William F. Sweeney, Jr. said, “Antiquities and art allow us to see a piece of history from a world that existed hundreds and, in some cases, thousands of years ago. As alleged, the men who trafficked in fake documents and used dead people’s names to bolster their lies had no care for the precious items they sold and no regard for the people they defrauded.”

While federal and state law enforcement agencies remain committed to eradicating tax evasion within large institutional settings, the best advice to avoid being subject to a phony art scheme is the same for any type of potential fraud scenario: if something seems too good to be true, it probably is!

QUOTE OF THE MONTH

"When, as an individual, you are not paying taxes, it is evasion. As a corporate, it is legal shrewdness or tax engineering."

- Jose Angel Gurria