



## Internal Control – More Than a Good Idea – It’s Also the Law!



### “WE NEVER SAW IT COMING”

#### FAMOUS DISASTER WARNINGS IGNORED

##### The O-Ring Failure on the Space Shuttle

One Morton Thiokol engineer expressed concerns about the effect of cold weather on the o-ring seals of the Space Shuttle Challenger’s booster rockets. He was told to mind his own business.



##### Flight School Training for Arab Terrorists

A female FBI agent (Coleen Rowley) in the Midwest expressed concern over the number of foreign nationals taking flight training. They didn’t want to know how to land the jets, just fly them. She was ignored by her bosses – after all, she was a woman. What do they know about terrorists?

#### BACKGROUND CHECKS

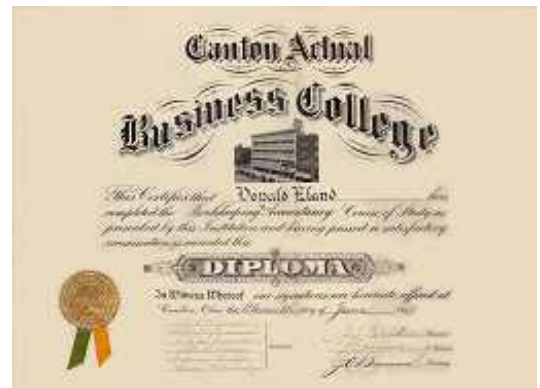
##### The Walker Spy Family

A low-ranking Pentagon code clerk shows up for work in a brand new, shiny red Ferrari. A rich aunt? A lottery ticket? Nobody checked. He threw lavish parties, too. Were you invited?

#### BOGUS CREDENTIALS

##### Albany VA Hospital

The VA never checked the credentials of a medical researcher, who doctored his undergraduate transcript (from St. Rose College), was dismissed from medical school, then played doctor at the VA, leading to the deaths of cancer patients. The case has been dragging on for several years. At first the hospital administration tried to dismiss allegations of wrongdoing. Now it is going to cost them dearly.



#### COOKING THE BOOKS

##### Barings Bank

Singapore trader (Nick Leeson), working without supervision, fluffs up accounts, engages in highly risky investments, losses totaling 830 million pounds - leading to bankruptcy of firm. He made the losses look like profits!



##### Other luminaries in creative accounting:

Arthur Andersen and ENRON (whistleblower - Sherron Watkins); Parmalat (founder - Calisto Tanzi); WorldCom (whistleblower - Cynthia Cooper) Lincoln Savings and Loan, Tyco (Former Tyco International director Frank Walsh has been arrested and charged with securities fraud after allegedly receiving a secret \$20m (£12.5m) payment.); Lawrence Insurance Group (Albert W. Lawrence - Llenroc a B & B)



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### Urban League of Albany

It’s board of directors was a Who’s Who of local politics, including Albany’s Catholic bishop. But Aaron Dare kept juggling real estate deals, including a promised jobs/lease arrangement with a suspect telemarketer. In the end, the entire house of cards collapsed. None of the board members were held personally liable for the \$500,000 owed to the IRS (the ten members could have each been tapped for \$50,000). Due diligence? It happened on their watch.



### Capital Region BOCES

If he had just waited a few more months to retire, the treasurer could have covered all his tracks. Instead, an inquiry from Schoharie County about a small accounting error led to discovery of a multi-million dollar embezzlement. When he retired, he bought a new car, a boat, and a vacation home. No one would ever suspect!

#### **BOCES RETIREE GOING TO PRISON**

Wednesday, November 22, 2000 Page: B1

The former treasurer for Capital Region BOCES who stole \$3.7 million from his employer and used the money to buy expensive cars, homes and a boat, was sentenced Tuesday to five to 15 years in state prison.

Not to be outdone, two Long Island school district superintendents were charged with similar **creative accounting practices** in 2004. OSC had a few harsh words to say about the auditor who reviewed Roslyn (LI) books. That auditor had the account for 12 years. Did I mention the audit firm also sold the accounting software used by 250 NYS school districts, including Roslyn?

A Grand Island BOCES staffer pled guilty to a mere \$40,000 theft. Chump change!

### William Cabin and the Lieutenant Governor’s Office

Phantom employees on the payroll let then Lt. Gov. Mario Cuomo’s Chief of Staff buy up lots of Centre Square real estate. Fortunately, he turned a profit, which kept him out of jail, and gave the State an excellent return on his investment.

### Billie Sol Estes and the Magic Silos

Back in 1961, LBJ confidant Billie Sol Estes applied for some agriculture loans, using the same handful of tractors and silos as collateral. He graciously flew the auditors from one side of Texas to the other, in his private plane, so they could conduct inventory. Meanwhile, his staff were changing the numbers on the silos, and gluing new serial numbers over the old on his tractors. Once the paint and glue dried, he’d fly the auditors back to the other side of the state, so they could inventory the “additional” property.

Did I mention the murder of USDA staffer Henry Marshall It was originally ruled a “suicide” – he managed to shoot himself five times with a bolt-action 22.





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## **ALBANY TIMES-UNION ARCHIVES**

### **ACCOUNTANT EMBEZZLED ALL THE CASH HE WANTED**

Friday, June 4, 1993 Page: A1

John James Lugas needed far more than his \$26,800 salary as an Air Force accountant to feed an insatiable appetite for expensive cars, Rolex watches, diamond jewelry and beautiful young women. So he exploited weaknesses in the Air Force bookkeeping system for three years to make sure U.S. taxpayers paid for his avarice. He siphoned more than \$2 million without arousing suspicions of officials here at Reese Air Force Base on the wind-swept plains of west Texas, or higher up in the chain of command.

### **THEFT CASTS CLOUD OVER SUNYA WEATHER CENTER**

THURSDAY, March 29, 1990 Page: B1

Instead of reading the maps in the weather center at State University at Albany, five graduate students pored over newspaper stories about one of their professors in trouble. Lightning expert Richard Orville pleaded guilty in Albany County court Tuesday to stealing computer data from SUNYA that he sold for \$604,000, part of which he used to buy a car and a town house.

### **FORMER BANK AIDES ADMIT EMBEZZLEMENT**

Thursday, September 15, 1994 Page: B4

ALBANY Two former employees of Albany Savings Bank pleaded guilty Wednesday in federal court to stealing more than \$47,000 from an elderly customer, using their jobs to create ATM cards to get into the man's account. Joseph C. Debrango, 46, of Grove Street, Rensselaer, and Robert H. Arket, 36, of Sanders Avenue, Scotia, will be sentenced Nov. 30 on charges of conspiracy to embezzle bank funds and of forfeiture.

### **INSIDE THE EMBEZZLER'S MIND - CRIMINOLOGISTS DETAIL PATTERNS OF MONEY PRESSURES, ACCESS TO CASH AND RATIONALIZATIONS**

Sunday, June 25, 2000 Page: C1

When fallen insurance magnate Albert W. Lawrence diverted \$38 million from policyholders, employees and others for his own purposes, he was following a classic pattern among white-collar criminals, experts say. First came the financial pressure, then the opportunity to take cash and, finally, the rationalizations.

State Legislature – interns (sex scandals) – How the might have fallen.

Assemblyman Roger Green – travel abuses lead to resignation

Thruway Authority – Canal Land Deal (overturned by OSC)

4 MTA employees charged 1-12-05 with illegally taking gifts including deluxe meals and gifts from vendors (chump change -

New York Racing Association (money laundering by pari-mutuel clerks; lavish perks for execs)

New York Bridge Authority – executive resigns in disgrace over travel expense improprieties.



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### **MORE SCANDALS IN THE NEWS (Various Internet Sources)**

NYC [scandals](#) of 2002 featured an array of miscreants, including:

- Angel Rodriguez: The City Council member from Brooklyn resigned after pleading guilty to taking bribes to win his support for construction of a supermarket in Red Hook
- Anthony Serra, a Rikers Island prison official forced to resign for allegedly coercing Corrections Department employees to work in Republican political campaigns.
- More than half of the city's plumbing inspectors were charged in June with taking bribes in exchange for allegedly approving plumbing work without doing required inspections. Mayors have tried and failed to clean up the Buildings Department, where the plumbing inspectors work, and so, in the wake of the scandal, Bloomberg vowed that he too would tackle the longstanding mess.
- Eighteen current and former New York City tax assessors were indicted in February on charges that they accepted millions of dollars in bribes over 35 years in order to cut the property taxes on 500 buildings in the city. The alleged corruption cost the city some \$160 million in tax revenues in the last four years alone.
- These instances of malfeasance, however tawdry, were sadly predictable and local. But newspapers throughout the nation took notice in November when it became known that financial analyst Jack Grubman helped engineer a \$1 million contribution from Citicorp to the 92nd Street Y in order to improve his twins' chances of being admitted to the Y's selective nursery school. The incident stepped over the line from surreal to scandal with allegations of what the Wall Street Journal called a kid pro quo: Had Grubman altered his analysis of AT&T in order to win the contribution? After all, the analyst and father said, "there are no bounds for what you do for your children."

**REAL ESTATE MOGUL SUES NEW YORK CITY FOR \$500M .** Real estate mogul Donald Trump has sued the city of New York for \$500 million, claiming a tax assessor bribery scandal forced him to sell apartments at a luxury building at below-market prices, a published report said. Trump said corrupt tax assessors hiked up taxes at Trump World Tower, a 72-story building near the United Nations, in order to cover up their scheme to lower taxes for certain landlords, *The New York Times*. Authorities said that Assessors took bribes totalling \$10 million in exchange for lowering assessments on commercial properties, mostly in Manhattan. At least one former tax assessor who pleaded guilty said assessors would raise taxes on some properties in order to hide the lower taxes on others. (*World News (AP)*, November 8, 2002, summary by Sherldine Tomlinson).

**School administrator admits to three felonies.** Sheila Johnson-Moore entered a guilty plea in County Court Thursday, 2/25 to embezzling \$26,208 from the Buffalo School District. She had been on paid suspension from her \$60K+/year job for several weeks. The 39-year old black woman has a criminal record which local school authorities had been warned about repeatedly when she began work for the school district, and several times thereafter. She was strongly supported by former Superintendents of Schools Thomson and Harris. Johnson-Moore was caught in the most recent felony as a result of an investigation by the Internal Revenue Service. She had been allowed to be sole financial administrator for a \$800,000 federal grant. The matter has brought wide-spread public outrage. An investigation into how Johnson-Moore got away with the embezzlement, and how her previous criminal record could have been ignored, is reported underway. (2/25)





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**Schools had been warned three times of administrator's criminal record.** The *Buffalo News* reported that warnings about the criminal past of Sheila Johnson-Moore had come three times to the Buffalo School district over a period several years from federal authorities. Still, the school district, under the direction of Superintendents Thomson and Harris, continued to employ and promote Johnson-Moore. A member of the Board of Education said this past week that an inspection of Johnson-Moore's personnel file indicated that the warning communications from the federal government had "disappeared." Meanwhile Johnson-Moore continues to draw her \$60K+ salary while on suspension. The investigation into improper handling of grant money in the Buffalo Schools reportedly is still expanding. (1/23)

**Administrator had been convicted of previous embezzlement.** One of the targets in a probe of "mis-handling" of a \$800,000 federal grant to the Buffalo schools reportedly has an extensive police record. *The Buffalo News* is reporting that Sheila Johnson-Moore had been convicted of embezzling \$23,991 from a federal minority program at an Tuskegee University in Alabama. That scam took place, *The News* reports, before the 39-year old woman was hired in Buffalo first as a teacher, and then quickly promoted to an administrator under the regime of former School Superintendent Albert Thompson. The newspaper is also reporting in Sunday, 1/9, editions, that Johnson-Moore illegally collected welfare benefits and food stamps from Erie County Social Services starting about mid-1990 and continuing through 1991---a time when she was employed at a good-paying job with the Buffalo School District.

That scam, *The News* reports, was made possible by her use of the name Stella D. Moore. Johnson-Moore is said to be making about \$60,000 a year in her present position with the Buffalo Schools, a position she has been on fully paid suspension form, since late last year. (1/9/00)

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**Roosevelt NY**, head of private school, Shelly Williams, 1979 founder of Upward Prep School (private) with emphasis on high test scores, etc. is charged with embezzling \$329,000 of day care funds provided by Nassau county. About \$92,000 was diverted to improve her home in Old Westbury. \$237,000 was diverted to her personal account. (NYT, Apr 6, 2K, p. B8).

### Other Scandals

**PAXIL** (GlaxoSmithKline anti-depressant) – linked with suicides in adolescents

**Rensselaer – Police Chief vs. Mayor** re using city gasoline for personal use. Bad press, but judge drops charges.

**Pick Six Betting Scandal** (Autotote Employee rigging Breeders' Cup "winning" ticket) They almost got away with it.

**Albany Police Department** – improper use of drug forfeiture moneys for non-criminal justice purposes (like retirement parties and artwork). \$40,000+ involved

**UN Oil for Food Program** - Kofi Annan's son implicated (appearance of impropriety). Other UN officials bribed.

**New York City – Park Avenue Armory**, a favorite for antique shows. Staff extorted free Persian carpets from exhibitors. Meanwhile, Javits Convention Center staff involved in other strongarm tactics.