



# LANSING CHAPTER OF THE ASSOCIATION OF CERTIFIED FRAUD EXAMINERS



- **We Didn't Actually Declare Independence on July 4<sup>th</sup>.** The official vote to declare independence from Britain took place on July 2nd. The Declaration of Independence was adopted and printed in newspapers on July 4<sup>th</sup>.
- **July 4<sup>th</sup> Wasn't Made a Federal Holiday Until 1870.** Nearly 100 years after the nation was founded Congress declared July 4<sup>th</sup> an official unpaid holiday for federal employees. It wasn't until 1938 that the day became a paid federal holiday.
- **Fireworks Have Been a July 4<sup>th</sup> Tradition Dating Back to 1777.** Fireworks were part of the first Independence Day anniversary celebration in 1777 and have been a tradition every year since then. In 1884, a group of miners blew up the post office in Swan, Colorado, because it wasn't supplied with fireworks.
- **The First Independence Day Celebration Took Place in Philadelphia in 1777.** That was also the first time that the Declaration of Independence was first read in public after people were summoned by the ringing of the Liberty Bell. The Liberty Bell's famous crack happened on George Washington's birthday in 1846. Since then, every July 4<sup>th</sup> the Liberty Bell is tapped (not rung) thirteen times in honor of the original thirteen colonies.

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## Fraud Talk Podcast

**The Oxfraud: What a Pseudo-Academic Conspiracy Theory Tells Us About Financial Fraud- Michael Pocalyko- Fraud Talk - Episode 120**

William Shakespeare is widely considered to be one of the most prolific and influential writers of all time. But one group of individuals, who call themselves "Oxfordians" and their theory the "Shakespeare Authorship Question," falsely claim that what we know to be Shakespeare's plays and poetry were actually penned by someone else. In this episode, ACFE Chief Training Officer John Gill, J.D., CFE, joins Michael Pocalyko, CFE, the CEO of SI, as they look at how the qualities of those claiming to disprove Shakespeare's authorship parallel the character of financial and investment fraudsters.

<https://acfe.podbean.com/e/the-oxfraud-what-a-pseudo-academic-conspiracy-theory-tells-us-about-financial-fraud-michael-pocalyko-fraud-talk-episode-120/>

## UPCOMING EVENTS

### LOCAL:

#### **Michigan Association of Certified Public Accountants**

Tales from the Darkside: IRS Enforcement of Cryptocurrency

Virtual

Thursday, July 14, 2022

3:00 pm - 5:00 pm

Learn more: <https://www.micpa.org/cpe/store/course-detail?ProductId=138211>



#### **State Association of Accountants, Auditors and Business Administrators (SAAABA)**

Thomas Quasarano, Assistant Attorney General, with the topic, "Freedom of Information Act (FOIA)" Webinar

Thursday, July 21st, 2022, at 12:00 pm

Learn more and register by July 19<sup>th</sup>: <http://www.saaaba.com/events3/>

*LACFE has reciprocity with SAAABA for chapter events, meaning our members can attend SAAABA events at their member rate. If any LACFE chapter members are interested in attending this event, please register and then send Mark Lee an email ([president@lansingacfe.com](mailto:president@lansingacfe.com)) so he can confirm your LACFE membership for SAAABA.*

#### **ACFE South Florida Chapter #11 presents 7th Annual Ethics Seminar**

In Person and Webinar (*Only \$35 for Associate Chapter Members - This includes LACFE members!*)

July 14, 2022

8:30 am – 11:00 am

**Earn up to 2 hours of Ethics CPE**

Learn more: <https://southfloridaacfe.org/page-18098>

### NATIONAL:

#### **ACFE**

Detecting Misrepresentation and Fraud During M&A Due Diligence

Virtual

Aug 2-4, 2022

Learn more: <https://www.acfe.com/training-events-and-products/all-events/calendar-of-events/event-detail-page?s=Detecting-Misrepresentation-Fraud-During-MA-Due-Dilligence-0822Virt-DMFDD>

#### **ACFE**

Investigating Conflicts of Interest

Virtual

Aug 17, 2022 (early registration ends July 18<sup>th</sup>)

Learn more: <https://www.acfe.com/training-events-and-products/all-events/calendar-of-events/event-detail-page?s=Investigating-Conflicts-Interest-0822Virt-ICI>

*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](mailto:jenny1661@hotmail.com)*

## 76 Fake Charities Shared a Mailbox. The I.R.S. Approved Them All

By David A. Fahrenthold, Troy Closson and Julie Tate

July 3, 2022

<https://www.nytimes.com/2022/07/03/us/politics/irs-fake-charities.html>

The “American Cancer Society of Michigan,” state authorities say, was a fake charity. And not even a good fake.

It was not in Michigan, for one thing. When the group applied to the Internal Revenue Service to become a tax-exempt nonprofit in 2020, it listed its address as a rented mailbox on Staten Island. It was not the American Cancer Society, either: In fact, the real American Cancer Society had already warned the I.R.S. that the leader of the sound-alike group, Ian Hosang, was running a fraud.

The I.R.S. approved the group anyway. Soon after, it also approved another operation run by Mr. Hosang: “the United Way of Ohio,” which was also registered to the Staten Island address.

Mr. Hosang, 63, is now accused by prosecutors in New York of operating a long-running charity fraud that has astounded nonprofit regulators and watchdogs — and raised concerns about the I.R.S.’s ability to serve as gatekeeper for the American charity system.

Not because the alleged scheme was so good.

Because it was terrible. And it worked.

Mr. Hosang — a convicted stock-market fraudster once accused of dangling a man out of a building — got the I.R.S. to approve 76 nonprofits, often despite glaring red flags of potential fraud. His operations stole the names of better-known charities. They claimed to be located where they obviously were not.

But the I.R.S. kept saying yes. And in doing so, the agency has attracted scrutiny of its new fast-track system for approving charities — an innovation implemented to deal with backlogs and budget cuts that now denies only one application in 2,400, according to agency statistics.

“Nobody’s watching the store,” said Nina E. Olson, who was the I.R.S.’s in-house national taxpayer advocate from 2001 to 2019 and warned repeatedly about the decreased level of vetting. “They’re the gatekeeper to this whole universe of charitable subsidies. And if the I.R.S. is not doing its job as a gatekeeper, then you’ve got real problems.”

The agency declined to answer questions about Mr. Hosang’s case, citing taxpayer privacy laws. It also declined to make officials available for in-person interviews, but it released a written statement saying that the fast-track approval system “continues to reduce taxpayer burden and increase cost effectiveness of I.R.S. operations.”

Mr. Hosang was indicted in Brooklyn in May on charges of grand larceny, identity theft and conducting a scheme to defraud. He has pleaded not guilty. The Brooklyn district attorney said he stole about \$152,000 in donations that flowed through 23 of his nonprofits. Mr. Hosang did not need to do much to promote the groups; the money came in through online giving platforms that let users choose among I.R.S.-approved charities.

Mr. Hosang, prosecutors said, spent the money on mortgage payments, credit card bills and at liquor stores.

“I did very wrong. I know that,” Mr. Hosang said in an emotional interview with The New York Times at his home on Staten Island. His voice breaking, Mr. Hosang said he had changed his life after a near-death spike in blood sugar in 2020, which he took as a sign from God. He said he wanted to make restitution for what he had done.

But, Mr. Hosang pointed out, every one of his charities had been approved.

“If you file something with an agency,” he said, “and they approve it, do you think it’s illegal?”

Mr. Hosang was born in Trinidad, grew up in Brooklyn, and graduated from New York University in 1984 with a degree in finance. He wound up on the ugly side of Wall Street — accused of running “pump and dump” operations that conned customers into paying high prices for low-quality stocks.

Prosecutors later said Mr. Hosang and his associates recruited salesmen on the subway, rewarded them with marijuana and worked with an associate of the Gambino crime family. Once, when a rival visited to complain, investigators said, Mr. Hosang and the mob associate “dangled him out the window of the ninth-floor office.”

In 1997, he was barred from the industry by a self-regulatory body then called the National Association of Securities Dealers.

In 1999, he pleaded guilty to federal charges of fraud and money laundering. Mr. Hosang’s attorney, Yusuf El Ashmawy, said Mr. Hosang cooperated with authorities and helped convict 150 people. He spent about two years in federal prison, according to federal records.

After his release, Mr. Hosang focused on a new business. In 2014, federal records show, he asked the I.R.S. to approve tax exemption for a new nonprofit: “The American Cancer Society for Children, Inc.” It wasn’t connected to the American Cancer Society.

“I got sidetracked. My son passed away,” Mr. Hosang said in the interview at his home, explaining how he had turned to setting up charities. “It was not a stable mind at the time.”

He began running the operation at a time when the agency was already ill prepared to detect signs of fraud in new applicants.

The first problem, according to former I.R.S. officials: Tax law does not prohibit nonprofits from impersonating better-known nonprofits by using sound-alike names. The second: There are no systematic checks for a history of fraud.

“You could be Jesse James or John Dillinger,” said Marcus S. Owens, who headed the agency’s tax-exempt section until 2000 and now represents charities at the law firm Loeb & Loeb. “There’s nothing that says you can’t apply for tax-exempt status from a jail cell, having been convicted of charity fraud.”

Still, former officials said, the I.R.S. bureaucracy once offered a powerful weapon against potential fraudsters.

Examiners who suspected fraud could slow down applications by asking for financial records, plans for the future or information about their officers. The requests were often a bluff of sorts, intended to deter applicants from proceeding, even though the agency had little power to block them if they pressed ahead.

“Congress hasn’t given the I.R.S. authorization to issue rules to make sure charities are not run by crooks,” Mr. Owens said.

The agency, in its written statement, said that employees reviewing new applications “have been trained to identify fraud.”

Mr. Hosang still got through. Between 2014 and 2018, the agency approved 17 of his applications for groups with “American Cancer Society” in their names, according to I.R.S. records.

That caught the attention of the real American Cancer Society. The group began contacting state attorneys general, who often have the power to shut down fraudulent nonprofits in their jurisdictions. That worked in North Dakota, Washington and California, but the state-by-state approach was slow.

In 2018, the American Cancer Society decided it needed a national approach. It wrote to the I.R.S., laying out the pattern it had identified in Mr. Hosang’s groups.

“It feels a little like ‘Scooby Doo,’” said Meghan Biss, a former I.R.S. lawyer who represented the American Cancer Society. “It shouldn’t have been that hard to figure out who the bad guy was.”

“Using the exact same mailing address? ‘I am the American Cancer Society of, like, 19 different cities?’ she said, adding, “That didn’t raise flags to anyone?”

American Cancer Society officials said they never heard back from the I.R.S.

But then, in 2020, the agency approved four new groups connected to Mr. Hosang: The “American Cancer Society” of Michigan. And of Detroit. And of Green Bay. And of Cleveland. Same Staten Island mailbox.

“Sometimes you can get away with things,” Ms. Biss said. “Not because you were so smart but because the people who were supposed to be watching out were not.”

As it turned out, Mr. Hosang had switched to using a new I.R.S. process for smaller charities. The new program was established in 2014, in response to budget cuts and a scandal in which the agency was accused of targeting conservative groups for undue scrutiny.

The new “EZ” application stripped 11 pages of questions down to three, nine boxes to check and a small blank for groups to describe their mission. There was little room for I.R.S. officials to mire suspected scammers in bureaucracy. The denial rate for new charities — which had been as high as one in 53 applicants in the old system — fell to one in 2,400 in this one.

One 2019 study by the agency’s taxpayer advocate found that 46 percent of the applicants it approved were not actually qualified, usually because their charters did not conform to charity law. It also noted that the “mission statements” were often so vague as to be useless. In 2021, federal records show, the I.R.S. approved groups whose mission statements were, in their entirety, “CHARITABLE ACTIVITY,” “NON-PROFIT” and “Need to fill in” (possibly a forgotten note to self).

Mr. Hosang switched to the fast-track system in 2019, according to agency records. His mailbox on Staten Island was the same. The red flags were still red: Among the “directors” listed in these supposed charities, there was a long-dead classmate from N.Y.U., a long-estranged friend from Wall Street, and at least one person who appeared to be imaginary, living on a street in Brooklyn that does not exist.

But, despite the American Cancer Society’s warning, Mr. Hosang was even more successful than before: In two years of using the fast-track system, Mr. Hosang got the I.R.S. to approve 56 new charities.

Zachary Weinstein, at the nonprofit-rating group Charity Navigator, said his group’s analysts had noticed the pattern in the I.R.S.’s data — and said it became almost comic, like a single miscreant fooling the same border guards with bad disguises.

“One guy coming in, in a bunch of dollar-store costume pieces,” Mr. Weinstein said. “He keeps crossing the border, and everyone keeps thinking he’s a different person.”

But Mr. Weinstein said Mr. Hosang’s success highlighted an unsettling problem. The entire regulatory system for U.S. charities rests on the I.R.S.’s vetting process. Its approval signals to state governments and potential donors that a charity is legitimate. It signals to internet giving platforms that a charity is worth including.

“It would be very expensive to do background checks on all the charities the I.R.S. has already approved,” since there are 1.4 million of them, said Ted Hart, chief executive of Charities Aid Foundation America, one of several online giving platforms that allowed donors to give to Mr. Hosang’s groups after they were approved. Mr. Hosang stole more than \$3,000 through their platform, according to the indictment in May.

“We need to be able to trust this list” of charities approved by the I.R.S., Mr. Hart said, or donors will be misled again.

When the fast-track process was created, the agency said it would free up personnel to examine existing nonprofits. Instead, as the service's manpower has shrunk, those examinations have declined by 45 percent since 2013, according to I.R.S. figures.

State charity regulators have asked the Federal Trade Commission to ban charities from impersonating better-known groups. In Congress, Representatives Betty McCollum, Democrat of Minnesota, and Fred Upton, Republican of Michigan, have introduced a bill that scraps the "EZ" form and fast-track system entirely.

"This form is doing damage," said Ben Kershaw of Independent Sector, a nonprofit association that supports the bill. "It needs to be stopped now."

In New York, Mr. Hosang's lawyer said he is in plea negotiations with prosecutors and "intends to make full restitution."

"He's in no shape to go to jail," Mr. El Ashmawy said. "He's hurt by this."

## Video of the Month

[IRS wraps up 2022 Dirty Dozen scams list - YouTube](#)

IRS wraps up 2022 Dirty Dozen scams list

<https://www.irs.gov/newsroom/irs-wraps-up-2022-dirty-dozen-scams-list-agency-urges-taxpayers-to-watch-out-for-tax-avoidance-strategies>

<https://accountinginstruction.info/>

The Internal Revenue Service today wrapped up its annual "Dirty Dozen" scams list for the 2022 filing season, with a warning to taxpayers to avoid being misled into using bogus tax avoidance strategies.



## In The News

Google Allowed a Sanctioned Russian Ad Company to Harvest User Data for Months  
<https://www.propublica.org/article/google-russia-rutarget-sberbank-sanctions-ukraine>

Ten Ways Billionaires Avoid Taxes on an Epic Scale  
<https://www.propublica.org/article/billionaires-tax-avoidance-techniques-irs-files>

How Paintings Lost in a Small-Town Art Heist Were Recovered 50 Years Later  
<https://www.nytimes.com/2022/06/20/nyregion/new-paltz-stolen-portraits-found.html>

'Sophisticated scheme': Lawsuits over pensions in Nashville-based AME Church move forward  
<https://www.tennessean.com/story/news/religion/2022/07/05/lawsuits-over-pensions-nashville-ame-church-move-forward/7714050001/>

Are banks quietly refusing reimbursements to fraud victims?  
<https://www.computerworld.com/article/3664808/are-banks-quietly-refusing-reimbursements-to-fraud-victims.html>

New website checker launched to combat online fraud  
<https://www.yahoo.com/entertainment/website-checker-launched-combat-online-230100823.html>

This WhatsApp scam promises you a visa, but just sends you into a spiral  
<https://www.zdnet.com/article/this-whatsapp-scam-promises-you-a-visa-but-just-sends-you-into-a-spiral/>

Illinois Lawmaker Wants Biometric IDs for Crypto Users  
<https://mobileidworld.com/illinois-lawmaker-pushes-biometric-ids-crypto-users-070504/>

BBB: Scammer tempting drivers with phony gas station gift cards  
<https://www.wafb.com/2022/07/05/bbb-scammer-tempting-drivers-with-phony-gas-station-gift-cards/>

Michigan hotels accused of duping guests reach agreement with state  
<https://www.freep.com/story/news/local/michigan/2022/07/01/hotels-michigan-agreement-repayment/7790500001/>

Former Spring Lake Finance Director Arrested on Charges of Embezzlement, Bank Fraud, Aggravated Identity Theft  
<https://www.justice.gov/usao-ednc/pr/former-spring-lake-finance-director-arrested-charges-embezzlement-bank-fraud-aggravated>

State Employee Charged in Over \$1 million Unemployment Fraud Scheme  
<https://www.justice.gov/usao-edmi/pr/state-employee-charged-over-1-million-unemployment-fraud-scheme>



Two Wayne County Employees Arrested And Charged With Embezzling Over \$1.7 Million In County Funds

<https://www.justice.gov/usao-edmi/pr/two-wayne-county-employees-arrested-and-charged-embezzling-over-17-million-county-funds>

North Bay Accountant Sentenced To 29 Months In Prison For Bank Fraud, Embezzlement Of Credit Union Funds, And Tax Evasion In Connection With Schemes To Defraud Cavallo Point Lodge And Redwood Credit Union

<https://www.justice.gov/usao-ndca/pr/north-bay-accountant-sentenced-29-months-prison-bank-fraud-embezzlement-credit-union>

Scammers seeking to exploit baby formula shortage, FTC warns

<https://www.cbsnews.com/news/baby-formula-shortage-scams-ftc/>

Missouri state rep resigns after federal conviction for COVID-19 fraud scheme

<https://thehill.com/homenews/state-watch/3545611-missouri-state-rep-resigns-after-federal-conviction-for-covid-19-fraud-scheme/>

Get Caught Up: Inside the massive fake designer goods bust in Warren

<https://www.clickondetroit.com/news/local/2022/07/02/get-caught-up-inside-the-massive-fake-designer-goods-bust-in-warren/>

DTE impersonators drained Rochester Hills woman's checking account using Zelle app

<https://www.freep.com/story/money/personal-finance/susan-tompor/2022/06/30/utility-shutoff-scam-stole-cash-via-zelle/7714138001/>

SDNY Files First Indictment Related to Insider Trading of NFTs While SEC Enforcement Expands Focus on Digital Assets Broadly

<https://www.sidley.com/en/insights/newsupdates/2022/06/sdny-files-first-indictment-related-to-insider-trading-of-nfts>

Apple Ex-Corporate Law Chief Admits Years of Insider Trading

<https://www.bloomberg.com/news/articles/2022-06-30/apple-s-former-top-corporate-lawyer-admits-insider-trading>

## Support Groups for Fraud Victims

June 10, 2022

Ryan Gregory, CFE

<https://acfeinsights.squarespace.com/acfe-insights/2022/6/10/support-groups-for-fraud-victims>

As investigators, we have all reached the point in the span of our interviews of what can be said or suggested next in support of fraud victims. With all the busy work of report writing, speaking to law enforcement, preparing for court and filing examination findings, we do not always remember the trauma a financial loss can be to the victim. As trained as we are, we may not have experienced fraud in our own lives to understand the emotional impact it can have.

To say fraud is pervasive would be an understatement. According to the Federal Trade Commission, in 2021, losses related to romance scams were valued at \$547 million dollars, more than six times the reported losses in 2017. The FBI reports that business email compromise (BEC) saw a 65% increase of both actual and attempted loss between July 2019 and December 2021 as fraudsters continued to target both large and small businesses through compromised email accounts. The FBI's 2021 Elder Fraud Report states, "the number of elderly victims has risen at an alarming rate," and victims over the age of 60 reported losses of \$1.7 billion.

There is a victim behind each of these numbers: some were able to recover funds, others may have seen arrests and then there are the unfortunate victims who lost it all. An article worth re-reading is the ACFE's January/February 2019 Fraud Magazine entitled, "Who's More Susceptible to Fraud?" by Donn LeVie Jr., CFE. It covers the psychology of the fraud attack and the psychological damage a victim may feel. LeVie offers the following statement towards the end of the article: "Victims often carry scars that transcend the loss of funds. Fraudsters can permanently bruise vulnerable souls with their deception and deceit."

Romance fraud victim Jeanne Aikens shares her story in the New Hampshire Business Review. It's a story of money gone, a scammer that wasn't caught and the shame felt in being misled. This article also discusses the misconceptions surrounding romance fraud, how it is targeting all age groups and how difficult prosecution is. In the end, Jeanne tells us she has found love and gotten married but still carries emotional bruises from this ordeal.

As an investigator who speaks to victims on a weekly basis, I wanted to bring attention to the following groups in the hope that victims can get help or support.

### FIGHT CYBERCRIME

This site offers a peer support program for victims of romance scams. Those who are interested can sign up or refer someone for a 10-week virtual program that includes a counselor.

**AARP FRAUD WATCH NETWORK VOA | REST PROGRAM**

AARP Fraud Watch Network and Volunteer of America (VOA) have created a program that offers scam/fraud victims emotional support that includes peer discussion groups.

**NATIONAL IDENTITY THEFT VICTIM ASSISTANCE NETWORK**

A network of coalitions across the country that deliver identity theft and cyber-crime victim assistance training. Training is provided to coalition members on how to provide direct victim assistance services.

As my wife Dr. Neera Malhotra (Professor with Portland State University) reminds me, the accompaniment of others helps in understanding, accepting and releasing trauma.

## Quote of the Month

**"Truth will ultimately prevail where there is pains to bring it to light."**

**– George Washington  
First President of the United States**