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# The 5 Most Scandalous Fraud Cases of 2019

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# The 5 Most Scandalous Fraud Cases of 2019

Selected by *Fraud Magazine*

Based on money lost, lives impacted and relevance to the anti-fraud profession.

APRIL 2019

## Feds take down \$1 billion Medicare fraud

05/



## .... \$1 Billion Medicare Fraud

- Money lost: **\$1 billion**
- Parties charged: **24 doctors and owners of medical equipment companies**
  - In April 2019, an international telemarketing network lured hundreds of thousands of elderly or disabled patients into a criminal scheme.
  - Two dozen people, including doctors and owners of medical equipment companies charged in a more than \$1 billion Medicare scam.
  - Investigators uncovered a plot that targeted elderly and disabled people by setting them up with back, neck and knee braces they didn't need.
  - The scheme has been dubbed “**Operation Brace Yourself.**”



## ... \$1 Billion Medicare Fraud

- Personal information of hundreds of thousands of Medicare beneficiaries across the country compromised.
- Large number of patients received unwanted braces sent to their homes. The unwanted products could disqualify them from receiving a brace under Medicare in future.
- Approx. 130 medical equipment companies were implicated in the scam that resulted in a total of \$1.2 billion in losses.
- Sherri Lydon, U.S. attorney for the district of South Carolina said, "All taxpayers will endure the rising cost of health care premiums and out-of-pocket costs as a result of fraud on our Medicare system."

## ... Status as of September 2020

- The sprawling investigation was carried out by the FBI, the IRS, and 17 U.S. attorney's offices.
- Charges were brought against defendants in states including New Jersey, California, Texas and Florida.
- Authorities also announced charges against owners of call centers, telemedicine firms and medical equipment companies.
- Government has options to recoup money lost to Medicare, including seizing fraudsters' assets and accounts, as well as property purchased with the proceeds of the scam.

MAY 2019

## US charges Chinese telecom giant Huawei with fraud, stealing trade secrets

04/





## .... Huawei Bank and Wire Fraud

- Facing possible extradition: **Meng Wanzhou (Huawei CFO)**
  - Huawei is one of the largest telecommunications equipment and services providers in the world.
  - In December 2018, Canada arrested Meng Wanzhou, at the request of the U.S.
  - In May 2019, U.S. authorities charged Huawei with criminal charges, including federal racketeering and conspiracy to steal trade secrets from American companies.
  - U.S. sought extradition of Huawei executive Meng Wanzhou from Canada.

## .... Huawei Bank and Wire Fraud

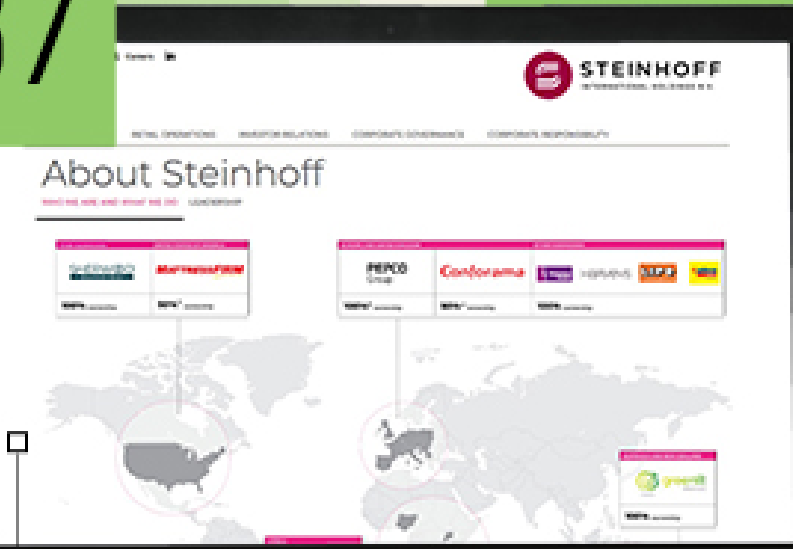
- When news broke that Wanzhou had been detained, China's embassy in Canada was quick to protest the arrest and demand her release.
- Not long after her arrest, two Canadians were detained in China on allegations of endangering Chinese national security.



## .... Status as of September 2020

- In early 2019, Wanzhou was released on bail of 10 million Canadian dollars.
- Wanzhou was charged with bank fraud, wire fraud, and conspiracies to commit bank and wire fraud.
- A 10-count indictment recently unsealed in the Western District of Washington State charged Huawei Device Co., Ltd. and Huawei Device Co. USA with theft of trade secrets conspiracy, attempted theft of trade secrets, seven counts of wire fraud, and one count of obstruction of justice.

03/



# PwC investigation finds \$7.4 billion accounting fraud at Steinhoff



## .... **Steinhoff Corporate Fraud Scheme**

- Money lost: **\$7.4 billion from 2009 to 2017**
- Duration of fraud: **8 years**
  - Steinhoff International (South Africa) overstated profits for several years to approximately \$7.4 billion.
  - Involved top executives and individuals from outside the company who implemented deals, which substantially inflated the group's profit and asset values.
  - It is South Africa's biggest corporate scandal to date.

## .... **Steinhoff Corporate Fraud Scheme**

- Steinhoff said investigators found that top management figures entered into fictitious transactions with entities purported to be independent third parties to create the illusion of income used to hide losses at the company's operating units.
- The scandal wiped out shareholders' equity and led to several resignations including chief executive Markus Jooste.
- The scandal has wiped out \$13.2 billion from Steinhoff's market value since December 2017.

## .... Status as of September 2020

- South Africa's financial regulator fined Steinhoff International Holdings NV \$3.6 million for failing to properly disclose accounting issues.
- South Africa probing at least 10 individuals in connection with the late-2017 scandal.
- Chief Executive resigned, but denied any wrongdoing.
- Steinhoff did not name the individuals involved but stated they were no longer employed by the company.

JULY 2019

More than 100 million  
Capital One credit  
card applications and  
accounts  
compromised

02/





## .... Capital One Data Breach

- Accounts hacked: **More than 100 million**
- The hacker: **Paige Thompson**
  - In July 2019, Paige Thompson, a software engineer in Seattle, was arrested for breaking into a Capital One server.
  - Gained access to
    - 140,000 Social Security numbers
    - 1 million Canadian Social Insurance numbers and
    - 80,000 bank account numbers
    - An undisclosed number of people's names, addresses, credit scores, credit limits, balances and other information

## .... Capital One Data Breach

- One of the largest-ever thefts of bank data.
- The hack is expected to cost the company between \$100 million and \$150 million



## .... Status as of September 2020

- A federal grand jury has indicted software engineer Paige Thompson on two counts related to the Capital One data breach that affected more than 100 million customers.
- The charges in the indictment carry penalties of up to 25 years in prison.
- Computer fraud and abuse is punishable by up to five years in prison and a \$250,000 fine.
- In 2018, Capital One was fined \$100 million for failure to monitor, detect, and prevent money laundering.

MARCH 2019

Thirty-three parents  
of college applicants  
are accused of  
bribery to influence  
undergraduate  
admissions decisions

01/





## .... “Operation Varsity Blues”

- Parties charged: **50**
- The Ringleader: **William Singer**
- Company: **The Key**
  - In March 2019, U.S. federal prosecutors charged at least 50 people for schemes involving wealthy parents who bought spots for their children in freshman classes at Yale, Stanford, the University of Southern California and other big-name schools.
  - This was the Justice Department’s largest-ever college admissions prosecution.

## .... “Operation Varsity Blues”

- The puppeteer of the financial crime and fraud case was William Singer.
- Authorities said The Key and its nonprofit arm;
  - Helped students cheat on their standardized tests and
  - Paid bribes to the coaches who could get them into college with fake athletic credentials
- Top college athletic coaches were accused of accepting millions of dollars to help admit students by suggesting they were top athletes.

## .... “Operation Varsity Blues”

- Of the schemes, some of the most noteworthy included:
  - Lori Loughlin and her husband, Mossimo Giannulli, paid Singer \$500,000 to guarantee her daughters' admission to the University of Southern California.
  - Actress Felicity Huffman paid \$15,000 dollars to have someone cheat on a college-entrance exam for her eldest daughter.



## .... Status as of September 2020

- Lori Loughlin was ordered to pay a \$150,000 fine, do 100 hours of community service, and spend two years on supervised release and serving two months in prison.
- Mossimo Giannulli was ordered to pay a \$250,000 fine, do 250 hours of community service, and spend two years on supervised release and serving five months in prison.
- Loughlin and Giannulli have until November 19<sup>th</sup> to report to prison.
- Felicity Huffman, was sentenced in September to 14 days in prison, fined \$30,000, and ordered to do 250 hours of community service. She was released after 11 days and will be on supervised release for a year.



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