As we have seen, there are various approaches to profiling fraudsters and many angles from which we can gather and analyze data for profiling, as follows:

- Personal characteristics.
- Behavioral characteristics.
- Higher-risk industries.
- Analysis of victim organization.
- Higher-risk departments.
- Higher-risk positions.
- Modus operandi or methodology.
- Analysis of consequences.

One way of bringing all of these components together for analysis and study is to examine actual real-life cases of fraud. Using the components of fraudulent behavior— incentive/motivation, opportunity/ availability of suitable target organization, and rationalization—can provide a structured approach to developing fraud profiles that can be used to formulate a focused, cost-effective response to fraud prevention and detection.

**SOME HIGH-PROFILE FRAUD CASES**

**Bernie Madoff**

Bernard ("Bernie") Lawrence Madoff (born in 1938) is a former stockbroker, investment adviser, financier, and nonexecutive chairman of the NASDAQ stock market and is currently a self-confessed fraudster and operator of a Ponzi scheme that is considered to be the largest financial fraud in U.S. history in today’s money.

Madoff was born in Queens, New York, to Jewish parents, Sylvia and Ralph Madoff. His father was a plumber and a stockbroker, and his grandparents were emigrants from Eastern Europe.

Madoff founded the Wall Street firm Bernard L. Madoff Investment Securities LLC in 1960, and was its chairman until his arrest in 2008. The firm was one of the top market maker businesses on Wall Street, which bypassed firms by directly executing orders over the counter from retail brokers. He employed his brother, Peter, as senior managing director and chief compliance officer; Peter’s daughter, Shana, as the firm’s rules and compliance officer and attorney; and his sons, Andrew and Mark. Peter has since been sentenced to 10 years in prison, and Mark sadly committed suicide two years after his father’s arrest.

In late 2008, Madoff’s sons reported to authorities that their father had confessed to them that the asset
management unit of his firm was just a huge Ponzi scheme, and quoted him as describing it was “one big lie.” The following day, the FBI arrested Madoff and charged him with securities fraud. The U.S. Securities and Exchange Commission (SEC) had previously conducted investigations into Madoff’s business practices, but had not uncovered the massive fraud.

On March 12, 2009, Madoff pleaded guilty to defrauding thousands of investors out of up to $65 billion, admitting that he commenced the Ponzi scheme in the early 1990s. Federal investigators, however, believe that the fraud scheme started as far back as the 1970s. On June 29, 2009, Madoff was sentenced to the maximum sentence of 150 years in prison.

Madoff’s firm started as a penny stock trader with $5,000 that he had saved from working as a lifeguard, as well as a secured a loan of $50,000 from his father-in-law. In order to compete with other firms he began using innovative computer information technology to carry out his trades. Ultimately, the technology that his firm had developed became the backbone to the technology used by the NASDAQ. The firm had an investment management and advisory division, which it did not publicize. This division was to be the focus of the fraud investigation.

Concerns about Madoff’s business surfaced as early as 1999, when a financial analyst, Harry Markopolos, informed the SEC that he believed it to be legally and mathematically impossible to achieve the level of gains that Madoff had been claiming to deliver, and he quickly concluded that Madoff and his activities must be fraudulent. Markopolos has since published a book, No One Would Listen, about the frustrating efforts that he and his team had made over a 10-year period to alert the government, the industry, and the press about the Madoff fraud.

A complaint received by the FBI stated that during early December 2008, Madoff had confided in a senior employee, identified by Bloomberg News as one of his sons, stating that he said he was struggling to meet $7 billion in redemptions. According to the sons, Madoff had told Mark Madoff on December 9 that he planned to pay out $173 million in staff bonuses two months early. Madoff said that “he had recently made profits through business operations, and that now was a good time to distribute it.” Mark advised Andrew Madoff, and the next morning they asked him how he could pay the bonuses to his staff if he was having trouble paying clients. Madoff responded by telling them that he was “finished” and that he had “absolutely nothing.” On June 26, 2009, Madoff was ordered to forfeit $170 million in assets. Prosecutors asked the judge to sentence Madoff to the maximum 150 years in prison. Bankruptcy trustee Irving Picard indicated that “Mr. Madoff has not provided meaningful cooperation or assistance.”

In February 2009, the SEC banned Madoff from the securities industry for life.

According to the SEC indictment, two back-office workers who had worked for Madoff had created false trading reports based on the returns that Madoff had ordered for each customer. Once Madoff had determined a customer’s return, one of the back-office workers would enter a false trade from a previous date and then enter a false closing trade in the amount of the required profit, according to the indictment. Prosecutors allege that the fraud involved the use of a computer program specially designed to backdate trades and manipulate account statements. In some cases returns were allegedly determined before the account was even opened.

Madoff admitted during his March 2009 guilty plea that the modus operandi of his scheme was to deposit client money into a Chase Manhattan Bank account, rather than invest it and generate steady returns as clients had been led to believe and had expected. When clients wanted their money back or their returns on investment, “I used the money in the Chase Manhattan Bank account that belonged to them or other clients to pay the requested funds,”
he told the court.

David Sheehan, chief counsel, stated on September 27, 2009, that about $36 billion had been invested in the scheme, returning $18 billion to investors, with $18 billion missing, although by 2011 the loss was stated as being around $65 billion.

In his plea, Madoff stated that he began his Ponzi scheme in 1991. He admitted he had never made any legitimate investments with his clients’ money. Instead, he said, he simply deposited the money into his personal bank account at Chase Manhattan Bank. When his customers asked for withdrawals, he paid them out of this Chase account. It was a classic “robbing Peter to pay Paul” scenario. Chase and its successor, JPMorgan Chase, it was alleged, had earned as much as $483 million from the operations of his bank account. He was committed to satisfying his clients’ expectations of high returns, despite the onslaught of an economic recession. He admitted to false trading activities and false SEC filings. He stated that he had always intended to resume legitimate trading activity, but it proved “difficult, and ultimately impossible” to reconcile his client accounts. In the end, Madoff said, he realized that his scam would eventually be exposed.

On June 29, 2009, Madoff was sentenced to a maximum sentence of 150 years in prison despite Madoff’s lawyers having originally asked the judge to impose a sentence of 7 years and later requesting that the sentence be limited to 12 years, because of Madoff’s life expectancy at 71.

Madoff apologized to his victims, stating that “I have left a legacy of shame, as some of my victims have pointed out, to my family and my grandchildren. This is something I will live with for the rest of my life. I’m sorry.”

HBO is currently making a movie about Madoff and his fraud in which actor Robert De Niro is set to star, based on the best-selling book The Wizard of Lies, by Diana B. Henriques.

If we were to profile the Madoff case, how would you describe this fraudster?
Frank Abagnale

Another interesting fraud case to profile would be that of Frank William Abagnale, born in 1948, an American security consultant, confidence trickster, escape artist, and convicted fraudster. He became one of the most famous impostors ever, claiming to have assumed at least eight identities, including an airline pilot, a doctor, a teacher, a prison agent, and a lawyer. He escaped from police custody twice before he was 21, once from a taxiing airliner and once from a U.S. jail. He served fewer than five years before starting to work for the federal government. He is currently a consultant and lecturer for the FBI and also runs Abagnale & Associates, a financial fraud consultancy company, turning to legal ways to make money out of fraud. Abagnale’s life story provided the inspiration for the film Catch Me If You Can.

Frank Abagnale, one of four children, grew up in New York State. His French mother, Paulette, and father, Frank Abagnale Sr., divorced when he was 14. His first victim was, surprisingly, his father, who had given him a truck and a fuel credit card to assist him in his commute to work. Abagnale quickly devised a fraud scheme in which he would purchase vehicle spares at gas stations with the fuel card and then ask the attendants to give him cash in return for the products. His father then ultimately became liable for the cost of the goods. Abagnale was a confidence trickster, and his early confidence tricks included writing personal checks on his own overdrawn account. This would obviously only work only for a limited period of time before the bank would demand payment, so he would open other accounts at many other banks after creating different identities and committing check fraud using these accounts.

Abagnale spent much time experimenting with different fraud schemes and developed varying ways of defrauding banks and their customers. One trick that he used was to print his account number on blank bank deposit slips and then add them to the stack of blank deposit slips in the bank branch customer waiting area, resulting in the deposits written on those slips by bank customers being deposited into his own account rather than the accounts of the legitimate customers. Another of his methods was to print out his own almost-perfect copies of payroll checks. He would deposit these checks into his bank account and then persuade the banks to advance him cash on the basis of his somewhat impressive account balances. Abagnale had also noticed a location where airlines and car rental businesses would drop their daily collections of money into a drop box at the airport using a zip-up bag. Disguised as a security guard using a uniform that he had purchased at a local costume shop, he left a sign at the drop box saying, “Out of Service. Place deposits with security guard on duty.” Abagnale sat there and collected the money. Later he disclosed how he could not believe that this idea had actually worked, stating with some astonishment, “How can a drop box be out of service?” Abagnale was one day passing some airline pilots in the street and was immediately impressed by their glamorous image, particularly in the eyes of the ladies. He had, for some time, wanted to fly around the world and saw the opportunity of impersonating airline pilots as a way of doing this for free. He obtained a uniform by calling Pan Am and telling the company that he was a Pan Am pilot who had lost his uniform. He obtained and used a fake employee ID and fake Federal Aviation Administration pilot's license to collect the uniform from the uniform store. Pan Am estimated that between the ages of 16 and 18, Abagnale had flown over 1 million miles on over 250 flights and that he had satisfied his ambition to travel by flying to at least 26 countries. He also found that he was able to stay at hotels for free during this time with everything from accommodations to food and laundry being billed to the airline. Abagnale showed off that he had often been invited by actual pilots to take the controls of the plane. Abagnale then worked as a sociology teaching assistant at Brigham Young University for a semester, under the alias of Frank Adams, and for almost a year he impersonated a pediatrician in a Georgia hospital under the name of Frank Conners after befriending a real doctor.
who lived in the same apartment complex. While he was posing as a Pan Am first officer, Abagnale passed the Louisiana Bar exam by forging a Harvard University law transcript and got a job at the Louisiana state attorney general’s office.

Abagnale was eventually caught in France in 1969, and after some time was deported to the United States, where he was sentenced to 12 years in prison for multiple counts of forgery. On his return to the United States, Abagnale escaped from the airliner as it landed at New York’s JFK International Airport.

After having served less than 5 years of his 12-year sentence, in 1974 the U.S. federal government made Abagnale a proposition and released him on the condition that he would assist the government in its fight against fraud by revealing how fraud is carried out from the side of the fraudster. After his release, Abagnale tried several jobs, including a grocer, cook, and movie projectionist, but he was fired from most of these after his employers discovered that he had failed to disclose any of his criminal history. He then approached a bank, explained his criminal history and deep experience of fraud, and offered to carry out fraud sensitization training to the bank’s employees, effectively showing them various tricks of the trade used to defraud banks. With that, he began a legitimate life as a fraud risk security consultant, one of the few ways to legally make money out of fraud.

He later founded Abagnale & Associates, based in Oklahoma, advising companies on fraud risk. His main client is still the FBI, with whom he has now been associated for many years. He teaches at the FBI Academy and lectures to FBI field offices throughout the country. According to Abagnale’s website, more than 14,000 institutions have adopted his fraud prevention programs.

Give his fraud profile.

**Barry Minkow**

Another fraudster who has found his name on the list of educational case studies is Barry Minkow. In 1981, as an ambitious 16-year-old high school student, Minkow started a carpet cleaning business, which he named ZZZZBest (ZBest). ZBest was an immediate business failure, having few customers and quickly running into debt. Minkow ignored the day-to-day operations and cost controls required of any new organization. By the time he was 17, Minkow and his company were heavily in debt. Despite his misfortune, Minkow was determined to have ZBest bring him financial success and opened new locations.

As his expenses increased, Minkow could not meet his liabilities and turned to insurance fraud to raise money. He staged a break-in at a ZBest location and fraudulently claimed a loss on the insurance. He also reported ownership of fictitious equipment to use as security to secure loans, falsified contracts to secure loans, stole money orders for cash, and added zeros to the bills of customers who paid by credit card. Minkow was living the good life with a new sports car and condominium, but, as he said, “both the Ferrari and the house were mortgaged to the hilt.”

In order to raise more cash, Minkow decided in 1986 to make ZBest a public corporation. Minkow falsified financial statements in an attempt to greatly improve the financial appearance of ZBest. On floatation he was worth around $12 million on paper, a substantial sum at that time. Minkow was continually raising money from new investors to pay off old investors. By April 1987, ZBest stock was selling for $18 a share. The company’s book value was $210 million at that time. Barry Minkow was worth $109 million on paper.
As a result of numerous television appearances, Minkow became something of a media celebrity. He was featured in *Newsweek* and *American Banker* and developed a reputation as an entrepreneurial legend. However, this reputation would change after an investigative report published in the *Los Angeles Times* in 1987. The report identified Minkow as the “whiz kid” behind a trail of false credit card billings. Minkow, the boy wonder, was now the “kid who swindled Wall Street.” Within a month, ZBest stock plummeted from $18 to $6 a share.

In July 1987, Minkow resigned from ZBest at the age of 22, citing ill health. ZBest shares were selling for just pennies. Minkow was charged with bank, stock, and mail fraud; money laundering; racketeering; conspiracy; and tax evasion. ZBest, a company once purported to be worth hundreds of millions of dollars, auctioned off its entire assets for just $62,000.

ZBest was actually a front for a Ponzi scheme. When the scheme collapsed in 1987, it was deemed to be one of the largest investment frauds ever perpetrated by a single person, as well as one of the largest accounting frauds in history, costing investors and lenders, many of them major banks, over $100 million. ZBest is often used as a case study in accounting training and fraud seminars.
Minkow and 10 other ZBest insiders were charged with 54 counts of bank fraud, embezzlement, money laundering, racketeering, securities fraud, mail fraud, and tax evasion. Minkow was charged with defrauding investors and banks of millions of dollars and with systematically draining assets from his company, setting up dummy companies, and false accounting. Prosecutors estimated that as much as 90 percent of ZBest’s revenue was fraudulent, originating particularly from false contracts and forged invoices. Effectively, Minkow had become a document creator and photocopying expert. Minkow was also charged with credit card fraud.

In 1989, Minkow was found guilty on all charges and was sentenced to 25 years in prison and was ordered to pay $26 million in restitution. In sentencing Minkow, the judge described him as a man without a conscience. While Minkow admitted to manipulating ZBest’s share price, he claimed that he was forced into turning the company into a great Ponzi scheme while being under pressure from an organized-crime syndicate, a story that he later admitted was also false. The judge rejected Minkow’s plea for a lighter sentence as “a joke” and said that it was “a slap on the wrist” for someone who had manipulated the financial system to such an extent. Minkow was also banned from ever serving as an officer or director of a public company again. He served just over seven years.

In preparing for his incarceration, Minkow became a born-again Christian and during his prison stay became involved in a Christian ministry. Following his release, he became a pastor at the Community Bible Church in San Diego and subsequently operated the Fraud Discovery Institute and spoke at schools about ethics. This all came to an end in 2011, when he admitted to manipulating share prices and was ordered back to prison.

Discuss the characteristics of this fraudster