



Fraudcast: stories of tricks & treachery



Episode 1: Be careful who you trust

Jazz Clemente

Hello everyone and welcome to the KPMG Fraudcast, where we unravel fraud cases in the news to uncover what happened and explore lessons learned. My name is Jazz Clemente.

Frédéric LeBlond

And I'm Frédéric LeBlond.

Jazz Clemente

We are both senior consultants within the KPMG in Canada's Forensic practice.

Frédéric LeBlond

The stories we will cover in this series are true events, but the names have been changed to aliases for the privacy of everyone involved. Although KPMG was not involved in these cases, we often work on cases similar to the ones of public knowledge we discuss.

Jazz Clemente

In this episode, we will be discussing stories of deceit and deception of vulnerable people who just wish they could have known better, the unfortunate victims of scams.

Frédéric LeBlond

The first case I'd like to discuss is that of Gabriel Moreau, a plaintiff in an intimacy scam case.

Jazz Clemente

Hmm, sounds interesting. What are intimacy scams?

Frédéric LeBlond

That's a good question. So an intimacy scam is a scam where someone takes advantage of their intimate relationship with another person to take advantage of them. This can happen a lot in a romantic context, but could also happen with a family member, like we will see here, or even

with a close friend. So the plaintiff in the case, Gabriel Moreau, met the Colombo family in 2009 after immigrating from France, and they became a sort of surrogate family for him, going so far as to refer to them as mom and dad. After Moreau sold his property and invested the proceeds, he was notified that his bank made an error while making the payout statement, leaving two lines of credit unpaid, and the bank refused to discharge the mortgage until payment was received. Moreau then turned to Steven Colombo, the dad, for advice, given that he was a retired lawyer. Mr. Colombo advised Moreau not to follow the bank's request and to instead transfer his life savings to the corporate account of his investment company, explaining that this could improve Moreau's bargaining position. But do you know what actually happened?

Jazz Clemente

No. Tell me what happened.

Frédéric LeBlond

Well, in reality, the funds were further transferred to their own personal accounts.

Jazz Clemente

So what you're telling me is that he was already encountering a problem with the bank, but the Colombos decided to take advantage of the situation and put him in a worse position?

Frédéric LeBlond

That's exactly it. So in 2017, the bank filed an action in debt against Moreau, and Mr. Colombo handled the lawsuit on Moreau's behalf, but doing so unfairly. So in 2019, Moreau decided to just give up and settled the lawsuit from his bank, but when he asked for his money back from the Colombos, the communications had been broken off. This resulted in Moreau being forced to rent out his home where he had hoped to retire, and he was stuck between lawsuits for another three years of his life. It was found that the

Colombos used half of the embezzled funds to settle outstanding judgments against Margaret Colombo, the mother, in favor of her former employer. In 2022, the courts ordered the couple to pay over \$742,000 in damages for the theft of Moreau's life savings under the guise of friendship and legal advice.

So Jazz, what do you think about this story?

Jazz Clemente

Personally, I wouldn't even know how I would react if I was in this situation. Canada has a lot of immigration, which creates a slew of people who are seeking relationships. As an immigrant myself, I know how hard it is to build genuine relationships in a foreign country, which makes people fall easily for scams like this one.

Frédéric LeBlond

That's so true. And another thing I thought about is that I feel like his bank failed him a bit. They could have played a better role in this situation. Was the bank issue clearly explained? Could the mortgage issue have been handled better? And was there any flagging on the payment to the personal account? I think institutions could benefit from playing a bigger role in protecting their customers from vulnerable situations like this.

The next story we're going to talk about is that of a romance scammer by the name of Jacques Liezel Vachon and some of his unfortunate victims.

Jazz Clemente

Wow, interesting. I'm sure a lot of us know about the Tinder Swindler, so I'm sure this is a type of scam that we are more familiar with.

Frédéric LeBlond

It's funny you mentioned that. When I read this story, I was sure it was the same guy, but it's actually not. So let's start with Stephanie Salustri. When Salustri met Jacques Hervieux, one of Vachon's many names, she thought she met the perfect man. He was charming, kind, and passionately in love. Having been through what he described as a difficult childhood, he told her he had been running a youth at risk facility in rural Eastern Canada. Interestingly, his life story included many aspects that were meaningful to her, almost as if it had been designed for her.

Jazz Clemente

What are the odds, hey?

Frédéric LeBlond

I know, it's like actually too good to be true. So when Hervieux asked her to donate to his facility, she offered to help him apply for grants instead.

Jazz Clemente

Scamming attempt failed, I guess.

Frédéric LeBlond

Or did it? He might have had another trick up his sleeve. Well, conveniently, Hervieux had said when they met that he suffered from Crohn's disease. So one day, he called to say that he had been hospitalized and urgently needed funds to pay for costly medication. Well, sadly, she was a target of his scheme and he eventually convinced her to transfer him \$5,000 before ghosting her. Eesh.

Now, let's talk about Jean Pierre Jodoin. Jodoin, a French citizen, met Vachon at a hostel in Quebec. They fell in love, they got together and they traveled to The Maritimes where he said he was promised a job on an offshore rig.

Jazz Clemente

They sure moved quickly.

Frédéric LeBlond

Too quick. Jodoin paid thousands of dollars for Vachon's supposed training courses and opened up accounts on his behalf to which he had access to. This resulted in Jodoin losing \$30,000 when Vachon eventually left with the money he was given for training and ghosted him.

Can you imagine making all that investment for nothing?

Jazz Clemente

No, absolutely not. That's horrible

Frédéric LeBlond

And all for a lie. Last but not least, let's talk about Melanie Masterson. So Masterson met Vachon on a dating site. The romance evolves quickly and they started planning their life together.

Jazz Clemente

In this day and age, it's harder to meet people in real life, and it's not uncommon to fall in love online and make a relationship prior to physically meeting each other. I actually

know quite a lot of people who met their person this way.

Frédéric LeBlond

And sometimes it genuinely works.

Jazz Clemente

But not in this case it sounds like.

Frédéric LeBlond

Exactly. And there's definitely a huge risk to it. He had said he had been working in Southeast Asia but wanted to move with her to Canada. However, due to some tax issues he faced, he needed help cashing a business check presumably to settle the claim against him. So naturally, she offered to help the love of her life, and he always had a great explanation for everything. So she provided him with her bank account number in which he deposited a check and pressured her to transfer him the money. So follow me, her account will go down \$45,000 from sending the money and then later will go back up \$45,000 when the check comes through, if it's a valid check that is.

Well, that did not happen. Sometime after having transferred the funds. The check he deposited had been found to be invalid and canceled, given that it was just a fake purchased online. But this resulted in her losing \$45,000. Vachon was later arrested in Ontario to face fraud claims in Quebec.

Jazz Clemente

Again, another story targeting a group of people with a desperate need. This kind of relates more to middle-aged women looking to feel something missing in their life and seeking a connection or even just companionship.

Frédéric LeBlond

Exactly, and it's so sad. Love is such a vulnerable thing to go through. You want to trust the person you talk to if you like them or are attracted to them. I think it's important to have someone you trust outside of the relationship you can talk to about these things, especially early on. A family member or a friend who can have that third person view and can spot red flags or can tell you if they think it's a good idea or not. After all, abusers are well known to tend to want to isolate you from your loved ones and make you think that what they're doing is normal. But finding your life with someone you just met is anything but. Talk to your friends, they care about your wellbeing.

Our last scam, something all too familiar and close to our

hearts is about a grandparent scam. A group of 23 scammers in Quebec collaborated to scam senior citizens in at least 500 cases, stealing an estimated total of \$2.5 million dollars. In their scam, an individual would contact a senior citizen while posing as their grandson or nephew explaining that they had a car accident while intoxicated and that they had been arrested. They would then ask that money be sent to them to be used to avoid a criminal record. Of course, caring for their grandson's or their nephew's reputation, they would agree to do so.

Jazz Clemente

What a tough situation to be in.

Frédéric LeBlond

I know right. Obviously they've endangered someone, but they're family. I mean, would you let your grandson take the charge? Well, that's a debate for another day. But one thing is for sure, this kind of loyalty is hard to come by.

Jazz Clemente

To think that their kindness could be taken advantage of is so awful.

Frédéric LeBlond

Absolutely. After calling the senior citizen posing as their grandson, a different individual would then come in, pretend to be a lawyer, and instruct the senior as to how to send the money so that the charges may be dropped. Well, in reality, they've simply managed to trick the grandparent into sending money to them for free. Well, thankfully, the alleged head of the operation was arrested in Europe in collaboration with the RCMP and is expected to be extradited back to Quebec.

Jazz Clemente

An all too familiar story indeed. It's heartbreaking to see how people could take advantage of the love and care of a grandparent, someone who has worked all their life.

Frédéric LeBlond

I genuinely wonder how they sleep at night.

We do have a special guest here with us today. I'd like to introduce our very own Kas Rehman. Kas is a partner at KPMG Canada and leads our Eastern Ontario and Atlantic Forensic practice and has over 30 years of experience helping clients manage fraud risks. Kas, what should we do

to avoid becoming a victim to scams like these? And do organizations face similar risks?

Kas Rehman

Well, that's a great question Fred, and thank you very much for having me on the podcast. The scams you've told us about all have one thing in common. The scammer gained the complete trust of the victim. And in each story that you talked about, trust was built over a period of time. And when it comes to these intimacy scams like the ones you've described, it seems like it takes a little less time for that trust to be built, and that's usually because of the emotional attachment.

Once that attachment is established, it seems like the victim will do anything for the scammer, including trusting them with large sums of money and money they really can't afford to lose. And I think the stories you told are very good examples of that exact situation. And what can you do to protect yourself if you're a victim or potentially going to be a victim of one of these scams? Well, I think you said it very well, Fred. When you're in a new relationship of any sort and sums of money are being requested early on in a relationship, it's really a great idea just to talk to a friend, talk to a family member and describe the situation. And it may be totally fine, but it could be a situation where you are being victimized. So talking to a friend or a family member will really help bring a perspective and a fresh perspective to the situation and may really help you avoid making a very costly mistake.

But I'd like to talk a little bit about how trust situations happen in organizations. And it happens all the time. Many internal frauds that we know about are committed by individuals who've been with an organization for a long time. They work long hours and they appear to be dedicated employees to the organization. In fact, they're often considered star employees who can be completely trusted. And that's where sometimes problems can happen. Some point the trusted employee may have a motivation to commit a fraud. Typically, they're not criminals to start with, but when the trust is in place and a motivation comes in place, that's where you have a recipe for a potential higher risk of fraud to occur.

And that motivation could be lots of different things and very simple things just like a personal need for cash. And you can think of just example of a spouse loses their job. Suddenly the family is only half able to pay for their lifestyle, and paying for mortgages, paying for kids going to university,

and all the other costs of life. Suddenly your income and your family income has been cut in half if your spouse has lost the job. So now this individual who works in your organization has a real desperate need for cash because they need to continue to fund their current obligations. So that's just one example, but there are lots of other examples that would cause individuals to have a high need for cash that may be different from a month or two months to three months ago.

And so another example could just be the simple situation we face ourselves in right now, which is the rising cost of everything. Food, gas, housing. Things are way more expensive now than they were even a few years ago before Covid. And so people are struggling to make ends meet, and that creates a high need for cash. So those are some of the real easy simple examples as to why someone may have a real motivation to need cash and to commit a fraud. There's the usual cash pressures as well that come from addictions like gambling and drugs. So these are all different pressures that you don't really know is going to occur, but these could happen to individuals.

So now when you have this motivation and you have a person in a position of trust, there's a real opportunity for a workplace fraud to occur. So how do you protect the organization? Okay, so there's lots of ways to do it, but really it starts with having a robust fraud risk management program in place, which includes a strong culture that promotes ethical behavior. It also includes having elements of prevention of fraud, detection of fraud and response. And when I say robust fraud risk management program, it doesn't need to be complex or costly, it just needs to be thinking, "What do we do in our organization to mitigate the risk of fraud?"

Okay, and so let me just talk quickly about a couple of those elements. One element is prevention. And so in prevention, one of the things you can do that most organizations should do, and you can do it quite easily, is to conduct periodic fraud risk assessments so that you're aware of where your organization is vulnerable to fraud and what controls you have in place to mitigate those risks. And if you're a small organization, you may have a challenge to sort of mitigate risks, but you need to be aware of where those risks are and then you can be aware of any red flags that might surface.

So now in terms of the other element I talked about, prevention, detection, response. So prevention, we talked about fraud risk assessments. Under detection, probably the

best thing you can do in your organization is to have some form of incident reporting mechanism in place, so that when people see something unusual or any kind of unusual activity, whether it's fraud or something else, they know that they can report it in a safe and supportive environment. And that's going to be your best deterrent and detection control around fraud or other wrongdoing in the workplace.

And finally, when I talked about prevention, detection, response, another thing you can do, another pillar is response. Most organizations, and I would recommend all organizations have a response plan. Fraud is going to hit your organization. It's just a matter of when and whether you detect it. But when it does happen, it's unfortunate, but you want to mitigate the impact of that fraud. So if you have a response plan in place now before the fraud happens, when it does happen, you actually know how you're going to respond, who's going to be involved, who's going to conduct an investigation, how you're going to communicate to your employees, how you're going to communicate to the media. All of those things can be determined well in advance of a crisis situation. The last thing you want to do is to have that crisis occur and not be prepared with what you're going to do to deal with it. That's where you're going to have a greater impact of your fraud in terms of your reputation and even the dollar amount of the fraud.

In the specific circumstance where too much trust is placed with certain employees, organizations can also consider some specific measures to sort of help mitigate the risk. One good example is job rotation, where individuals aren't allowed to stay in the same role week after week after week. So rotating jobs acts as a deterrent for fraud because you know someone's coming in to do your job, and they'll likely find any unusual activity if it's occurring. So that's a really good sort of practical approach to dealing with someone that's trusted in one position for a long time.

And I'll just end with another practical tip to help everyone in the organization, particularly those in areas where there's a higher risk of fraud. You want to make sure those folks are taking their vacations. There's a lot of good reasons to take vacation. One really good reason is to mitigate the risk of fraud. Because if someone is in a trusted position, and they're in that position day in and day out and never take their vacation, it's possible they're covering something up. So if they're forced to take their vacation, the person coming in to do the role, while the person's away may see something that is unusual and you might find a fraud that's going on. It also may deter someone from, if it were me and

I'm working in a position of trust and I want to commit a fraud, I'm less likely to do it if I know I'm going to have to take my vacation and someone else is going to take my place while I'm away, because I might get found out.

So those are some of the practical tips I would say. So just to summarize from an organizational perspective, have a robust fraud risk management program involving prevention, detection and response elements. And then some of those practical tips that I just mentioned include job rotation in those high risk areas as well as enforcing vacation for individuals.

Jazz Clemente

Each episode we'd like to leave you with a little something to help increase fraud awareness. Here's Fred with our fraud scheme of the week, churning.

Frédéric LeBlond

Thanks, Jazz. So when I say churning, you're probably thinking of butter, right? What does that have to do with fraud? Well, churning is actually the excessive trading of a customer account to generate commissions while disregarding the customer's real interests. Specifically, churning occurs when an investment professional excessively trades an account for the purpose of increasing their commissions instead of furthering the customer's investment goals. You could see it as churning the customer account to get money out of it, just like you churn milk to get butter.

Jazz Clemente

How do you manage this?

Frédéric LeBlond

So first, we need to understand how churning occurs. Your investment advisor has a duty to honor your best interest when managing your account. However, he also has an interest in making a good living for himself. His pay structure might not reward him solely based on your account's performance, and so there would be an interest in artificially increasing commissions if that would result in more money for less effort. As a customer, churning is something that would affect the performance of your investment account. This may become apparent if your account is performing much worse or not as well as the market, and this can't otherwise be explained by your investment choices, the information provided to your advisor or their incompetence.

A good test to detect churning is to take the monthly gross

commissions generated from the account and calculate it as a percentage of the average account balance. Say you have an average daily balance of say, \$10,000, that might generate on the high side 500, which is 5%. That ratio should increase in months when there is more volatility in the markets and when your trades have been more successful. If that's not the case, you might be a victim of churning.

KPMG Forensic professionals transform how clients identify, mitigate, and respond to risk saving time and money. We help individuals and organizations stay on top of fraud, and we would love to help you too. On behalf of the whole KPMG Canada's Forensic team, thank you very much for tuning into this episode of the KPMG Fraudcast.

Jazz Clemente

And we hope you join us again next time.