



Fraudcast: stories of tricks & treachery



Episode 2: Ventures of lies – Ponzi schemes

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 the story of a man who led a double life. His ambition to succeed led him to create one of the biggest Ponzi schemes in Canadian history. Between 2012 and 2017, about 515 people in total, mostly in Canada, but also in Nigeria, bought into a Ponzi scheme with a total investments amounting to the tune of \$40 to \$48 million dollars. Forensic accountants figured Canadians and investors from elsewhere lost somewhere between 23 to \$41 million dollars, likely closer to the higher end. Fred, can you explain to our listeners what a Ponzi scheme is?

Frédéric LeBlond

Sure. So according to the Oxford Dictionary, a Ponzi scheme is a form of fraud in which belief in the success of a non-existent enterprise, for example, a made up company, is fostered by the payment of quick returns to the first investors from money invested by later investors. In other words,

you're getting someone to invest in something that does not exist while keeping most of the money for yourself and lying to your investors about what's going on.

Jazz Clemente

This is the story of William Dawson.

William Dawson had regular middle class jobs, including in the local used car industry before creating Crystal Media Inc. in 2012, which served as an umbrella organization for illicit companies, including Dawson Direct, a point of sale terminal ownership program. However, no POS terminals ever existed.

Frédéric LeBlond

Classic Ponzi scheme. Nothing exists and we somehow never find out.

Jazz Clemente

I know. The scheme was sold at trade shows across the country and websites to attract investors. The premise was for the POS terminals to be placed in high volume businesses across Canada. The ownership program was structured like this. The investors were to receive 15 cents per transaction and monthly payout. For example, a couple was duped into buying in after going to an Ontario franchise show. They made three separate investments totaling over \$120,000. The business used a virtual office space located at one of the towers in downtown Toronto. But the truth is, Dawson was operating in a car repair shop, which was located several kilometers away from Toronto. Dawson owned the shop and was managed by his neighbor who was a mechanic. Any mail sent to the company's fake Toronto office was forwarded to a PO box close to the car repair shop.

Frédéric LeBlond

You know what? For me, this shows that he knew what he was doing.

Jazz Clemente

How would you say so?

Frédéric LeBlond

Well if I were looking into this and I saw that his mail for a point of sale company was going to a car repair shop, that would be an immediate red flag. So, by using an independent PO box, he can keep up appearances.

Jazz Clemente

You're totally right here. He had everyone fooled for sure. Dawson had also taken on a friend's identity and used his name when meeting people and in communication with investors. Dawson's scheme was a one man job. However, he needed employees to assist in the affairs of the business. Now take note that none of these people knew that this was a scheme and they truly believed that they were working for Dawson Direct. A woman was employed as an administrative assistant, and essentially handled the bulk of the daily business of the company at the direction of Dawson.

In 2014, a salesman was hired to sell the POS terminals. This man truly believed in the business that he bought into the scheme and encouraged his family to do the same. Another woman was hired to mine data on small businesses, which were then assigned to POS machine identification numbers. The lists created were then sent to investors to suggest that the terminals were actually generating income.

Frédéric LeBlond

Notice how they're doing this proactively. Well it's not enough to just have no one find out about what's really going on. They have to avoid anyone having the idea in the first place. So by generating these lists, they can show that everything is normal.

Jazz Clemente

As I mentioned earlier, Dawson worked regular jobs and owned a car shop. So naturally, people were starting to get suspicious of the sudden changes in his lifestyle. How would you feel, Fred, if your neighbor who you know is working a normal day job, suddenly goes home with a corvette and invites you to his yacht?

Frédéric LeBlond

I mean, I'd be suspicious for sure. That kind of money doesn't fall from trees.

Jazz Clemente

This would be the beginning of the end for him.

Frédéric LeBlond

Oh, I bet he got chewed up real good.

Jazz Clemente

Beginning in 2014, the mechanic, who was managing the car repair shop, noticed Dawson's obvious display of wealth, even though the car business was unprofitable. In 2015, the mechanic spotted more than one million dollars in one of Dawson's accounts, which was unrealistic given the way things were going. Over time, the bank's Dawson used became suspicious and eventually shut down his account. In September 2017, payments to investors stopped. Remember that couple who invested in one of the trade shows used as an example?

Frédéric LeBlond

Oh, yeah.

Jazz Clemente

That investment received a return of approximately \$40,000 dollars in revenue, which then stopped in July 2017.

Frédéric LeBlond

Whoa, whoa, whoa, whoa. So you're telling me they invested \$120,000 dollars and only got \$40,000 back? Talk about a poor return.

Jazz Clemente

I know. In that same year in August, Dawson fled to the Caribbean with his wife of three years. He told investors via email that Dawson Direct was being purchased by a South American company. But when this legitimate company was later approached by investors, they said they had no relationship with Dawson Direct. Bank drafts and money wires totaling three million US dollars were transferred to the Caribbean from 2016 to 2017. Over time, Dawson dispersed approximately \$12.2 million dollars to the Caribbean.

This money was placed in various accounts there and used to buy homes and more than a dozen condominiums. Here in Ontario, he was also able to put \$200,000 deposits on two separate town homes. Assets restrained by officials included 1.8 million Canadian dollars and 300,000 US dollars in total. Dawson was finally arrested in 2020 in the Caribbean during the height of the pandemic. He had fake identification for

multiple countries, had real estate and luxury cars, and had built a resort.

Dawson plead guilty to money laundering and fraud. In 2022, Dawson was sentenced to seven years in prison, which means that he could be out by 2026. However, he was ordered to pay a fine of approximately \$27 million in lieu for feature within five years of his release. Failure to do so would land him in jail for another seven years. A truly elaborate Ponzi scheme set in Canada finally comes to a close just last year. This only shows how we should be careful who we trust and we really don't know what the people around us are capable of in pursuit of a better life. So, what do you think, Fred?

Frédéric LeBlond

Oh, what a story. I think what I find most fascinating about Ponzi schemes, even outside of this one, is how you can get away making astronomical amounts of money on something that doesn't even exist. I think that really speaks to the importance of having some healthy level of skepticism when doing business with others. The other interesting thing with Ponzi schemes is that although vulnerable people may fall victim to it, it's actually designed to target wealthy individuals and companies with money to spare. I think it's a testament to the fact that fraud can affect anyone, even the most intelligent individuals and prestigious organizations. So take this as a reminder to make sure you do your due diligence before committing to an investment.

Jazz Clemente

Oh, I absolutely agree with you. This is definitely a story that would stay with the victims, and hopefully with our listeners, for a long time.

Joining us for this episode as our special guest is Karen Grogan, KPMG partner in our Forensic practice based in southwestern Ontario with 30 years of experience focusing on employee and corporate fraud investigations, investment scams, and litigation support. She co-authored the KPMG article, Ponzi Schemes, How to Recognize Them and the Story of Fraudster Andrew Lech.

Karen Grogan

Hi, Jazz, and Fred. Thanks so much for having me here today.

Jazz Clemente

We're happy to have you here. So our first question is, what are the first signs to detect a Ponzi scheme?

Karen Grogan

Well, there are usually many indications that someone is perpetrating a Ponzi scheme. I often refer to what I believe is the top 10 red flags.

Number one, the investment opportunity is normally brought to you by a family member, a friend, or a friend of a friend, kind of spreading by word of mouth rather than you actually reaching out to an investment advisor.

Number two, the opportunity is made to appear to be exclusive, like you need to be on the inside to get to invest.

Number three, there is an urgency to invest now or you'll lose this once in a lifetime opportunity.

Number four, the investment scammer is often referred to as a guru, a master, or a genius.

Number five, no one questions a guru. Everyone just invests in blind faith. It is a complicated investment and only the guru knows how it works.

Number six, groups of investors are targeted by affiliation such as church members, wealthy individuals such as doctors and business owners.

Number seven, there is little or no paperwork documenting your investment.

Number eight, it is often suggested that your investment gains are tax-free and there's no need to report them on your tax return. You're lucky your investment guru has structured it this way.

Number nine, not only are your gains tax-free, there is absolutely no risk to your investment.

And number 10, most importantly to lure you in, the suggested returns are much higher than normal, such as 15 to 20%. So just remember, if it's too good to be true, it is.

Jazz Clemente

Wow. That's really interesting, Karen. So how can we protect ourselves from this?

Karen Grogan

Well as a start, keep the 10 red flags front of mind, but also do your homework. Even doing an internet search on the so-called guru may get some quick hits. I have found in many cases that there's information out there that these people have been involved and charged in scams in the past. The other thing you can do is make sure your investment advisor is properly registered with the Ontario Securities

Commission or other regulatory body. Also ask your investment advisor about the details of the investments. Ask for proper documentation and proof of investments. You could even call another investment advisor to ask if this investment sounds plausible or if they offer something similar to that investment.

Jazz Clemente

And lastly, what should you do if you find yourself in the unfortunate position that you have invested in a Ponzi scheme?

Karen Grogan

Well what you need to do is act quickly. Often the Ponzi scheme isn't suspected until you're having difficulty getting ahold of the scammer or trying to get your investments out. Even then, the guru often tries to buy time by making some excuse that your investment is stuck somewhere and even ask for more money to get it back. Make sure you don't throw good money after bad. Make a complaint to your local police and to the Ontario Securities Commission. They may already have heard circumstances similar to yours with the same individual. Make sure you gather all the documentation you do have, your emails, investment papers, check copies, bank drafts, everything that you've got with this investment advisor.

This will help the police to investigate possibly charges, as well as assist a Forensic accountant to trace the location of your funds. The other thing you want to do is make sure that you get legal advice as to how you may be able to recover your money. This may involve freezing bank accounts and seizing assets and your best bet on getting money back is if you act quickly.

Jazz Clemente

Thank you so much for all that information, Karen. We're glad you were able to join us today.

Karen Grogan

You're welcome. Thank you so much. And remember, invest safely.

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, front businesses, a form of money laundering.

Frédéric LeBlond

Have you ever wondered how that restaurant you've never seen anyone go into still manages to stay open? Maybe they simply only do takeout or maybe there's more to it. Could it be a front? It's possible. When criminals get rich, they can't just deposit or use their money willy-nilly because someone along the way might catch on that their money may be of shady origins. For this reason, criminals try to devise ways to make it seem like their money has legitimate origins while avoiding alerting the authorities. This is what is famously called money laundering. The name comes from the fact that you are "washing money." You're washing away its dirty origin so it looks nice and clean.

There are several schemes that allow you to do this and can involve casinos, art auctions, front businesses, real estate, insurance contracts, and many more. The goal often is to have something to fall on when pushed to explain the source of your income. Front businesses allow you to overstate your reported revenues and expenses. While a restaurant may not actually have any customers in reality, it would not be unreasonable for a restaurant to earn a lot of revenue. That is, when only looking at what is on paper. Unless the investigator goes on site and observes the operations, it's hard to find it suspicious at first glance.

Jazz Clemente

How do you manage this?

Frédéric LeBlond

So you'd have to rely on the practice of anti-money laundering, or AML, which encompasses the systems and controls in place to detect and stop money laundering. One important component of this is enforcement of AML regulation by financial institutions. For example, banks are required to report and investigate deposits and transactions over a stated value and perform due diligence measures on their customers. In an attempt to launder money, a front business would try to break apart and time their deposits and would need to defend their legitimacy when targeted by the bank's due diligence program. So any organization that may handle transactions dealing with large amounts of cash could be used by a criminal for money laundering.

For example, if the criminal knows of an employee in the procurement department, they could collude with them to obtain a contract, which could lead to them having a reason to explain larger deposits in their bank accounts. Such organizations should implement an anti-money laundering

program in order to avoid being used as part of a criminals plan to launder money. An effective program should include, first, a system of internal policies, procedures, and controls to ensure compliance with AML regulations. Second, it should provide for independent testing of compliance by auditors. Next, you should designate a compliance officer to handle day-to-day compliance with AML regulations. And finally, it should provide training to all personnel on an ongoing basis.

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 in 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.