



# North Carolina State Bureau of Investigation



*Attorney General  
Roy Cooper*



*SBI Director  
Greg McLeod*



## About the SBI

- The State Bureau of Investigation is a division of the Department of Justice under the direction of Attorney General Roy Cooper.
- The SBI assists local law enforcement with criminal investigations. We work closely with local police and sheriffs, district attorneys, federal investigators, and federal prosecutors.
- SBI field agents provide expert investigative assistance with criminal cases when requested by local police, sheriffs, district attorneys, and judges.



# Jurisdiction

- The SBI has statewide jurisdiction and investigates homicides, robberies, property crimes, and other serious cases. Involvement is at the request of the local department that maintains original jurisdiction over the case.
- The SBI has original jurisdiction in these areas:
  - Drug investigations
  - Arson investigations
  - Theft and misuse of state property
  - Threats against public officials
  - Election law violations
  - Child sexual abuse in day care centers
  - Computer crime investigations that involve crimes against children

## NORTH CAROLINA STATE BUREAU OF INVESTIGATION





## Financial Crime Investigations Unit

- Specialized unit investigating white collar crimes including embezzlement, fraud, and corruption
- Based in Raleigh, jurisdiction statewide
- Special Agent in Charge and seven agents
- Requirements – 18 hours of accounting and 4 years of professional experience OR masters degree and 2 years experience OR licensed CPA
- Salary range \$51,982 to \$104,380



## Aspects of the Job

- Interview victims, witnesses, and suspects
- Prepare and execute search warrants
- Review financial documentation relating to evidence of a crime and prepare analysis
- Prepare investigative report for the District Attorney
- Testify before grand juries
- Arrest suspects
- Testify in criminal trials



## 2008-2009 Annual Report for Financial Crimes

- 81 cases under investigation
- 67 defendants charged with a total of 119 felony counts
- Cases worked by FCI involved monetary losses of \$28,150,324.
- Restitution ordered: \$2,871,571.



## Federal vs. State Prosecution of Financial Crimes

- There is a general misconception that it is always preferable to prosecute a case federally.
- While this may be true in some types of investigations, such as public corruption, money laundering, etc., it is by no means an absolute.
- The biggest advantage of investigating a case federally is the ability to use the federal grand jury to compel testimony and obtain records.



## Federal vs. State Prosecution of Financial Crimes

- However, as a general rule, a white collar defendant who embezzles or fraudulently obtains \$100,000 or more will receive more prison time in the state system.
  - Anthony Allen – defrauded various investors out of approximately \$20 million. Received an active prison term of 45 to 58.5 years.
  - Zachary Bynum – an attorney that embezzled approximately \$3 million from his trust account. Received an active prison term of 24 to 32 years.
  - Terry Dixon – embezzled approximately \$3 million from various drainage districts she administered. Received an active prison term of 17 to 21 years.



## Federal vs. State Prosecution of Financial Crimes

- Barbara Campbell – fraudulently obtained approximately \$500,000 from two elderly victims. Received an active prison term of 17 to 21 years.
- John McCormick – attorney who embezzled approximately \$1 million from his trust account. Received an active prison term of 9 to 12 years.
- Joe Barfield – fraudulently obtained approximately \$1.3 million from a car dealership. Received an active prison sentence of 15 to 19.5 years.



## Embezzlement

**Statute: §14-90. Embezzlement of property received by virtue of office or employment.**

A person guilty of this offense

- (1) fraudulently or knowingly and willingly
- (2) uses for a purpose other than that for which the defendant received it
- (3) the property of another
- (4) held by the defendant in a fiduciary capacity.

**Punishment:** Class H felony. It is a Class C felony if the value of the property embezzled is \$100,000 or more.



## Obtaining Property by False Pretenses

**Statute: §14-100. Obtaining property by false pretenses.**

A person guilty of this offense

- (1) makes a representation of a past or existing fact or a future event
- (2) that is false, *and*
- (3) is calculated and intended to deceive, *and*
- (4) does in fact deceive another person, *and*
- (5) the person thereby obtains, or attempts to obtain, money, property, services, or some other thing of value from that other person.

**Punishment:** Class H felony. It is a Class C felony if the value of the property taken is \$100,000 or more.



## Corporate Malfeasance

**Statute: §14-254. Malfeasance of corporation officers and agents.**

- (a) If any president, director, cashier, teller, clerk or agent of any corporation shall
- embezzle, abstract or willfully misapply any of the moneys, funds or credits of the corporation, or
  - shall, without authority from the directors, issue or put forth any certificate of deposit, draw any order or bill of exchange, make any acceptance, assign any note, bond, draft, bill of exchange, mortgage, judgment or decree, or
  - make any false entry in any book, report or statement of the corporation with the intent in either case to injure or defraud or to deceive any person, or
  - if any person shall aid and abet in the doing of any of these things, he shall be punished as a Class H felon.
- (b) For purposes of this section, "person" means a natural person, association, consortium, corporation, body politic, partnership, or other group, entity, or organization.



## Public Corruption

- Refers to criminal acts committed by an elected official or high ranking government official.
- Generally involves financial crimes (money) such as embezzlement, campaign finance violations, bribery, etc.
- Usually the cover up is worse than the crime and results in additional criminal charges, such as obstruction of justice.
- These crimes are usually best prosecuted in the federal system because of applicable statutes and the availability of an investigative grand jury.



## Common Factors Involving Embezzlements

- Segregation of duties – limited or nonexistent in most cases
- Internal controls – weak internal controls or noncompliance
- Length of employment – usually employed for numerous years
- Trusted employee
- Personal work habits – works long hours, does not want assistance, eager to take on new duties, and reluctant to take vacation



## CHARACTERISTICS OF CLASSIC EMBEZZLERS

- Usually work their crimes alone.
- Tend to be compulsive (gambling, abusing alcohol/drugs).
- Spend money freely (their own and/or the company's).
- Rationalize their thefts by thinking they are merely “borrowing.”
- Tend to repeat and escalate their crime.
- Exploit weaknesses in internal controls to cover up their crimes.
- Have ready access on-the-job to cash or its equivalent.



## Why Do People Embezzle?

- Greed
- Addiction
  - Substance abuse
  - Gambling
  - Shopping
- Extra-marital affair
- Low self-esteem
- I've earned it



## ORGANIZATIONAL RED FLAGS

- No Communication of Expectations
- Too Much Trust in Key Employees
- Lack of Proper Authorization Procedures
- Lack of Attention to Detail
- Changes in Organizational Structure
- Tendency Toward Crisis Management



## **FINANCIAL DOCUMENT RED FLAGS**

- Missing Documents
- Alteration of Documents
- Excessive Number of Voided Documents
- Documents Not Numerically Controlled
- Questionable Handwriting or Authorization
- Duplicate Payments
- Unusual Billing Addresses or Arrangements
- Address of Employee Same as Vendor
- Duplicate or “Home Made” Photocopied Invoices



## **ACCOUNTABILITY AND CONTROL RED FLAGS**

- Lack of Separation of Duties
- Lack of Physical Security and/or Key Control
- Weak Links in Chain of Controls and Accountability
- Missing Independent Checks on Performance
- Lax Management Style
- Poor System Design
- Inadequate Training



## Embezzlement of State Property by Deputy Clerk of Court

- Latoya Shenell Johnson was a Deputy Clerk of Court in Cumberland County, and held the position of cashier.
- Her duties involved receiving cash payments for traffic violations, court costs, and other fines.
- Upon receipt of payment from a customer, she was to print a receipt indicating payment was made. The customer would receive the original receipt.
- Johnson was able to determine a flaw in the internal controls concerning voiding receipts.

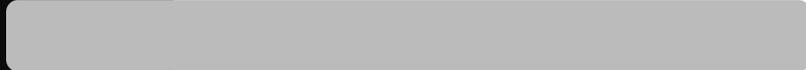


## Embezzlement of State Property by Deputy Clerk of Court

- She would print a duplicate receipt. Johnson would void the original transaction in the computer system, and also write the letter “V” on the original receipt.
- She would then print a voided receipt. By doing this, Johnson showed the cash payment made by the customer was voided out of the system.
- At this point, Johnson would embezzle the money paid by the customer. Johnson would balance her cash register at the end of the day, since the transaction had been voided and she embezzled the money.



## Embezzlement of State Property by Deputy Clerk of Court



- Johnson further covered up her embezzlement by validating the citation showing that it had been paid and remitted to the criminal section of the clerk's office.
- The criminal section would then note the payment had been made, based on the notation on the citation and the criminal system would indicate the case had been disposed.
- An AOC audit indicated 533 cases where it appeared Johnson had voided the transactions and embezzled the money.



## Embezzlement of State Property by Deputy Clerk of Court



- **Latoya Shenell Johnson**
- Amount of loss: \$93,418.75
- Plea: Guilty to 24 counts of embezzlement of state property.
- Sentence: Consolidated to 4 counts, 5 years 4 months to 6 years 8 months active.



## **Overview of a Massive Conspiracy to Defraud the Wake County School System**



## **False Representations**

- Barnes Motor & Parts Company Inc. submitted several thousand false invoices over a period of two years to the Wake County School System.
- These invoices contained fictitious part numbers, had no item descriptions, and were for made up dollar amounts.
- The invoices were kept under \$2,500 in order to circumvent school system bidding requirements.



## Deception of Victim

- Wake County school officials assumed that these invoices were for legitimate items such as bus parts, supplies, tools, etc.
- In fact, no such items were furnished related to those particular invoices.
- Wake County school employees involved in the scheme approved the fraudulent invoices and submitted them to the Accounts Payable Department for payment.



## Property Fraudulently Obtained

- Wake County School System issued checks totaling in excess of \$3.8 million payable to Barnes Motor & Parts Company.
- A portion of these funds were then distributed to the individuals involved in the scheme in the form of gift cards, vehicles, motor homes, furniture, electronics, home improvements, and other luxury items.



## Vernon Hatley



- Former School Transportation Director
- Approved all of the fictitious invoices
- The fraud could not have been perpetrated without his involvement
- Received at least \$47,000 in various goods in exchange for his participation in the scheme
- Entered a contested guilty plea to one count of false pretense and one count of conspiracy, and sentenced to a 7 to 10 year active prison term



## Carol Finch



- Former Purchasing Officer for the Transportation Department
- One of the primary architects of the scheme, along with Barnes co-conspirators
- Fraudulent Barnes invoices were submitted to Finch, who then forwarded to Hatley for approval
- Along with two other coconspirators, received in excess of one million dollars in property for her involvement in the scheme
- Entered a guilty plea to one count of false pretense and one count of conspiracy, and received an active prison term of 6 to 8 years, and a \$100,000 fine.



## Angela Malloy-Sanders



- Former secretary to Transportation Director Vernon Hatley
- Was present during meetings when fraudulent activities were discussed and carried out
- Assisted Hatley in procuring property that he received.
- Lied to school officials when questioned during internal investigation
- Received \$40,000 in property for her role in the scheme.
- Engaged in an extra-marital affair with Hatley
- Pled guilty to accessory after the fact
- Sentenced to an active prison term of 20 to 33 months and restitution of \$36,932.



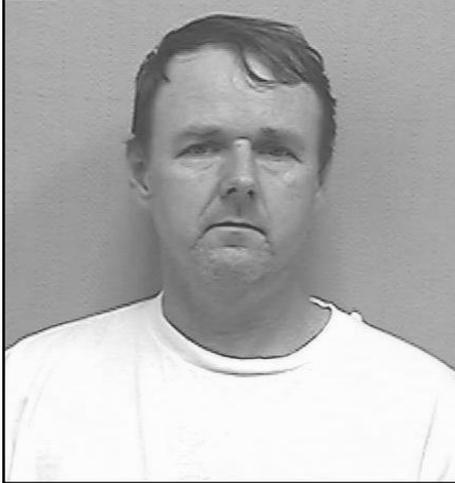
## Pamela Stewart



- Former secretary to Carol Finch
- Accompanied Finch on shopping trips to spend fraudulently obtained proceeds
- Received \$50,000 in property
- Pled guilty to accessory after the fact
- Sentenced to 60 days in Wake County jail and \$40,000 in restitution



## Bobby Joe Browder



- Former Barnes Motor & Parts Company Vice-President
- Directed that fraudulent invoices be prepared and submitted to Wake County
- Issued Barnes checks to purchase luxury items for Transportation Department co-conspirators
- Personally received only \$3,000 in goods
- Maintained that Barnes superiors were aware of the scheme
- Pled guilty to one count of false pretense and one count of conspiracy
- Sentenced to an active prison term of 5 to 7 years



## Connie Capps



- Former manager of Barnes Raleigh store
- Responsible for preparation and submission of fraudulent invoices
- Went on shopping sprees with Carol Finch to spend diverted monies
- Along with Finch, received property in excess of \$1 million
- Pled guilty to one count of false pretense and one count of conspiracy
- Received an active prison term of 5 to 7 years, and fined \$500,000.



## Harold Estes



- Initially boyfriend and now husband of Connie Capps
- Received in excess of \$500,000 via Barnes checks payable to him, which were then used to purchase property for Carol Finch and other co-conspirators.
- In essence, laundered the illegal proceeds.
- Along with Capps and Finch, received in excess of one million dollars in property
- Was convicted at trial of one count of false pretense and one count of conspiracy
- Sentenced to an active prison term of 11 to 15 years and fined \$500,000.



## Barnes Motor & Parts Corporation



- The corporation was indicted on one count of false pretense
- Although the three top corporate officers were implicated by Browder, there was insufficient evidence to convict them
- The corporation pled guilty and paid a three million dollar fine to the Wake County School System



## Extortion by NCDOT Employees

- Information was received from NCDOT that employees had allegedly been extorting money from paving contractors.
- Suspects developed during the investigation:
  - Engineer Danny Ray Taylor
  - Inspector Don Chadwick Fornes
  - Inspector Michael Joseph Delmonte
  - Bridge Maintenance Supervisor Dalton Ray Alligood, Jr.



## Extortion by NCDOT Employees

- Contractors interviewed stated Taylor requested 10% payment on the gross amount of state contracts awarded to them.
- Fornes and Delmonte received cash payments for padding contractor timesheets.
- Alligood received cash payments for awarding bridge maintenance work.



## Extortion by NCDOT Employees

- A paving contractor cooperating with the investigation allowed the SBI to record separate transactions with Taylor and Fornes.
- Taylor received \$4,300 in cash, which was 10% of the \$43,000 payment the contractor had just received from NCDOT.
- Fornes received \$1,300 for manipulating timesheets.



## Extortion by NCDOT Employees

- Both transactions were captured covertly on video.
- Fornes subsequently allowed the SBI to record a telephone conversation that implicated Delmonte.
- Interviews with additional contractors developed information about Alligood receiving payments relating to bridge maintenance, and corroborating witnesses were located.



## Extortion by NCDOT Employees



- **Danny Ray Taylor**
- Amount of loss: \$10,800+
- Plea: Guilty to 1 count of extortion under color of official right.
- Sentence: 54 months active, 3 years supervised probation, full restitution to NCDOT.



## Extortion by NCDOT Employees



- **Don Chadwick Fornes**
- Amount of loss: \$9,900+
- Plea: Guilty to 1 count of extortion under color of official right.
- Sentence: 21 months active, 3 years supervised probation, full restitution to NCDOT.



## Extortion by NCDOT Employees



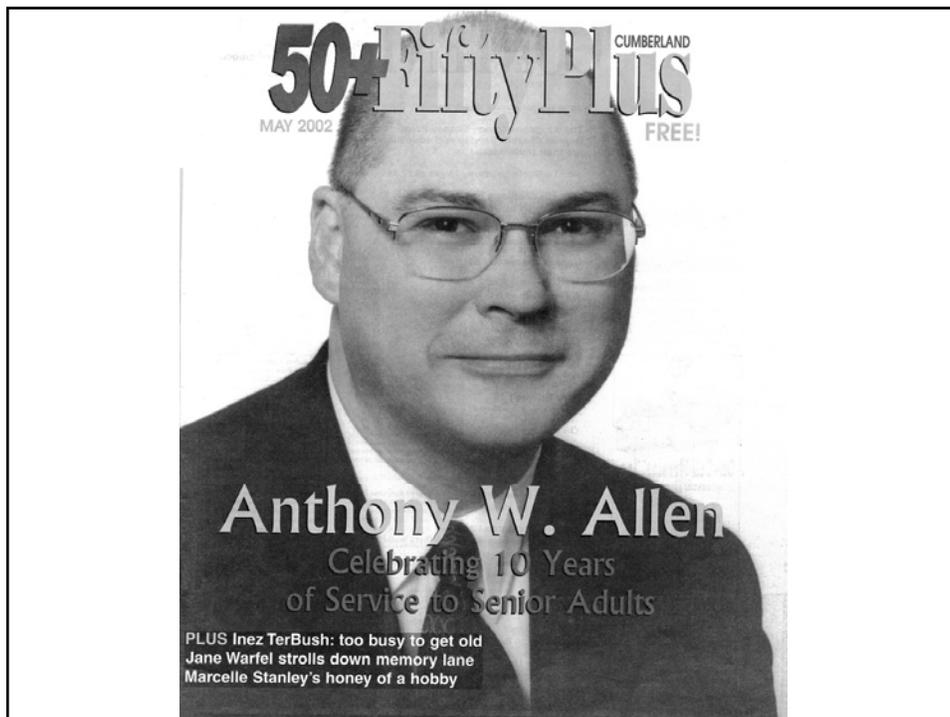
- **Michael Joseph Delmonte**
- Amount of loss: \$8,900+
- Plea: Guilty to 1 count of extortion under color of official right, 1 count of conspiracy to commit offenses against the USA.
- Sentence: 21 months active, 3 years supervised probation, full restitution to NCDOT.



## Extortion by NCDOT Employees



- **Dalton Ray Alligood, Jr.**
- Amount of loss: \$39,000
- Plea: Guilty to 1 count of extortion under color of official right.
- Sentence: 37 months active, 3 years supervised probation, full restitution to NCDOT.



## Investment Fraud Scheme

- Anthony Allen was a licensed insurance agent in the Fayetteville area.
- Established a business known as Client Relations for the alleged purpose of counseling senior citizens on investment opportunities.
- Held the franchise for the Fifty Plus magazine for Cumberland County. This magazine targeted senior citizens regarding investments and related topics.
- Also established a travel agency for his clients offering current and prospective clients expensive group trips at extreme discounts.



## Investment Fraud Scheme

- Purported to be an ordained minister and would pray with clients during their meetings.
- Would not allow children or younger family members to attend meetings with his elder clients.
- Offered guaranteed rate of return for clients investing in his business.



## Anthony Allen

- Largest false pretense case in state history.
- Victimized elderly citizens in Cumberland County.
- Initially charged with 304 counts of fraud and embezzlement totaling \$19,343,463.
- Pled guilty to 85 counts totaling \$9,632,606.
- Sentence of 45 to 58.5 years.

**Client Relations**  
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September 19, 2002

*Rec'd  
 8/21/02  
 Copy made for  
 [unclear]  
 2-20-04  
 NCD*

Michael D. Herring  
 Diane L. Herring  
 3154 Lake Crest Drive  
 Fayetteville, North Carolina 28301

Ref: Confirmation of Cash Assets

Dear Mr. & Mrs. Herring:

This correspondence is legal confirmation of your current cash assets managed by our firm. As of September 19, 2002, Michael D. Herring (DOB 07-16-47) and Diane L. Herring (DOB 06-03-44) have \$292,273.82 on deposit. The principle balance is \$239,520.35. Earned interest and credits equal \$52,753.47. Acting as Internal Auditor, I confirm this amount to be valid and correct.

These funds are non-qualified. They are earning 14.25% interest and will continue to do so for the next 24 months. This account currently earns \$3,470.75 monthly.

Thank you for your continued patronage.

Signed,

*Calvin C. Deans*

Calvin C. Deans  
 Accounts Supervisor

Signature of Notary Public: *Mary Anne S. Hall*

My Commission Expires: *Nov. 11, 2006*

CCD/sj

cc: Anthony W. Allen  
 Chief Executive Officer

Bobby P. Khot  
 Attorney at Law

**Michael D. Herring**  
**Diane L. Herring**  
 [redacted]  
 DOB: 07-16-47 / 06-03-44  
 3154 Lakecrest Drive  
 Fayetteville, North Carolina 28301  
 910-488-0466

**Earnings Record:**

|  |                    |              |
|--|--------------------|--------------|
| 04-22-01   | Initial Investment | \$150,200.34 |
| 04-22-01   | Interest Bonus     | 3,004.01     |
| 04-22-01   | Interest Bonus     | 3,004.01     |
| 04-22-01   | Balance            | 156,208.36   |
| 06-26-01   | Investment         | 52,605.08    |
| 06-26-01   | Interest Bonus     | 1,052.10     |
| 06-26-01   | Interest Bonus     | 1,052.10     |
| 06-26-01   | Interest Earned    | 3,957.26     |
| 06-26-01   | Balance            | 214,874.90   |
| 09-05-01   | Investment         | 4,861.92     |
| 09-05-01   | Interest Bonus     | 97.24        |
| 09-05-01   | Interest Bonus     | 97.24        |
| 09-05-01   | Interest Earned    | 5,868.73     |
| 09-05-01   | Balance            | 225,800.03   |
| 06-26-02   | Interest Earned    | 26,009.40    |
| 06-26-02   | Balance            | 251,809.43   |
| 08-23-02   | Interest Earned    | 5,681.33     |
| 08-23-02   | Investment         | 3,331.32     |
| 08-23-02   | Balance            | 260,822.08   |
| 08-27-02   | Interest Earned    | 412.96       |
| 08-27-02   | Investment         | 23,460.33    |
| 08-27-02   | Balance            | 284,695.37   |
| 09-02-02   | Interest Earned    | 563.45       |
| 09-02-02   | Investment         | 5,061.36     |
| 09-02-02   | Balance            | 290,320.18   |
| 09-19-02   | Interest Earned    | 1,953.64     |
| 09-19-02   | Audit Balance      | 292,273.82   |
| Total Interest Earnings Since Initial Transfer = |                    | \$52,753.47  |
| Current Annual Interest Earned =                 |                    | 41,649.02    |
| Current Monthly Interest Earned =                |                    | 3,470.75     |

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March 24, 2003

Joseph E. Hoffman, Jr.  
 6019 Murphy Road  
 Stedman, North Carolina 28391

Ref: Confirmation of Cash Assets

Dear Mr. Hoffman:

This correspondence is legal confirmation of your current cash assets managed by our firm. As of March 24, 2003, Joseph E. Hoffman, Jr. (DOB 12-31-26) has \$588,389.11 on deposit. The principle balance is \$506,820.82. Earned interest and credits equal \$111,568.29. There has been one recorded distribution in the amount of \$30,000.00. Acting as Internal Auditor, I confirm this amount to be valid and correct.

These funds are non-qualified and are receiving a fixed rate-of-return.

Thank you for your continued patronage.

Signed,



Calvin C. Deans  
 Accounts Supervisor

Signature of Notary Public: *Huendelup G. Atkins*

My Commission Expires: June 28, 2005

CCDaj

cc: Anthony W. Allen  
 Chief Executive Officer

Bobby P. Khot  
 Attorney at Law

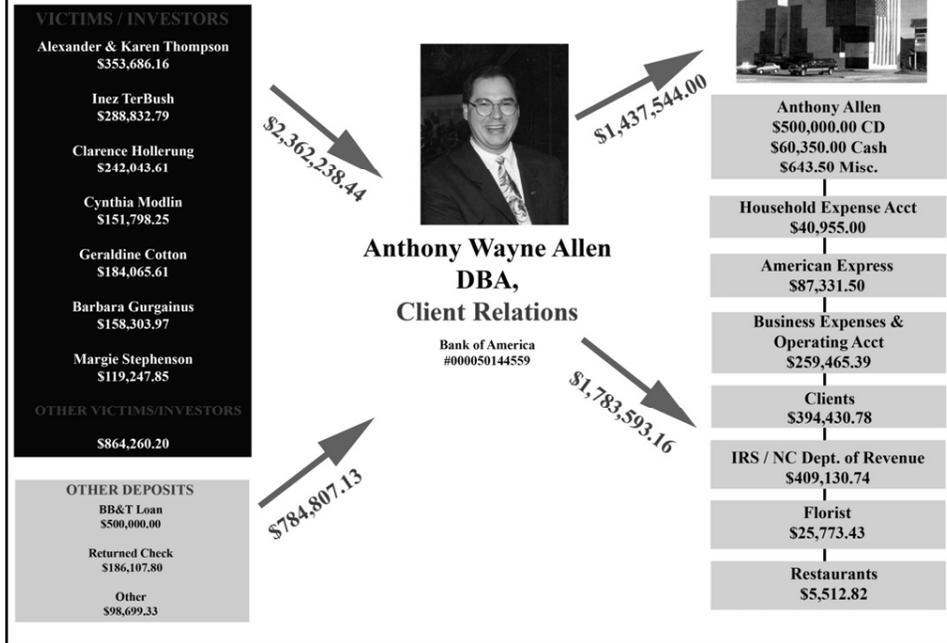


Joseph E. Hoffman, Jr.  
 [REDACTED] \ DOB 12-31-26  
 6019 Murphy Road  
 Stedman, North Carolina 28391  
 910-483-0948

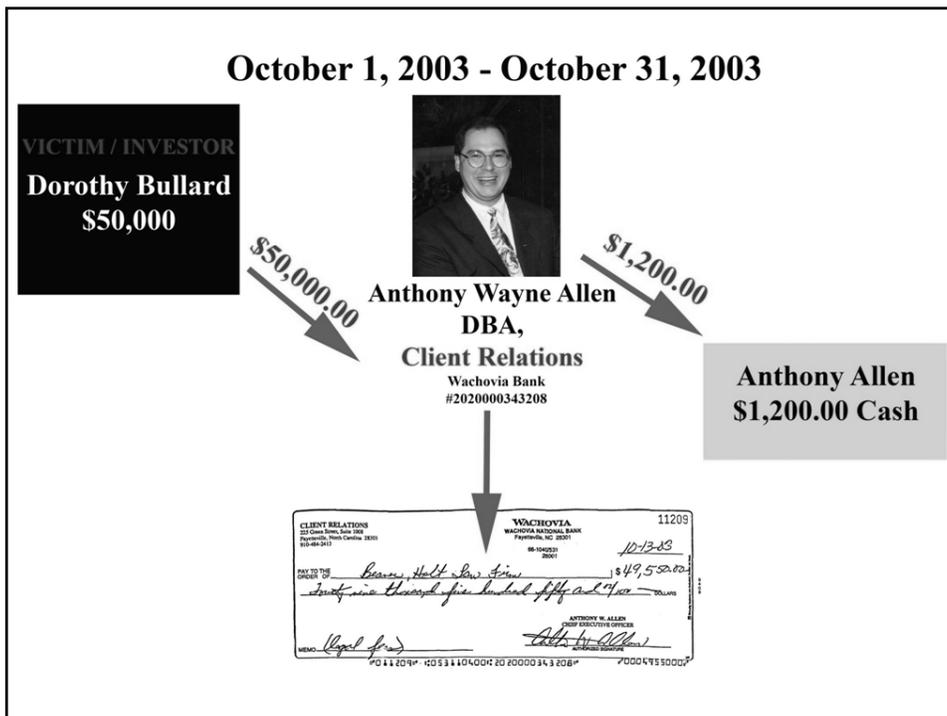
**Earnings Record:**

|                                     |                     |
|-------------------------------------|---------------------|
| 02-06-02 Investment                 | \$406,173.70        |
| 02-06-02 Investment                 | 39,293.68           |
| 02-06-02 Interest Earnings          | 41,205.73           |
| 02-06-02 Interest Earnings          | 8,909.35            |
| 02-06-02 Balance                    | 495,582.46          |
| 09-23-02 Investment                 | 57,078.77           |
| 09-23-02 Investment                 | 1,663.20            |
| 09-23-02 Investment                 | 2,611.47            |
| 09-23-02 Interest Earnings          | 32,484.05           |
| 09-23-02 Interest Earnings          | 1,227.07            |
| 09-23-02 Balance                    | 590,647.02          |
| 11-19-02 Interest Earnings          | 8,498.66            |
| 11-19-02 Balance                    | 599,145.68          |
| 03-24-03 Interest Earnings          | 19,243.43           |
| 03-24-03 Distribution               | -30,000.00          |
| 03-24-03 Audit Balance              | <u>\$588,389.11</u> |
|                                     | 506,820.82          |
| Total Investment Amount =           | 506,820.82          |
| Total Distribution =                | 30,000.00           |
| Total Interest Earnings =           | 111,568.29          |
| Current Annual Interest Earnings =  | 54,425.99           |
| Current Monthly Interest Earnings = | 4,535.50            |
| Current Daily Interest Earnings =   | 151.18              |

December 1, 2000 - January 31, 2001



October 1, 2003 - October 31, 2003





*Excellence Through Commitment*