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Daily Planet Hit by Massive Payroll Fraud

By *Becky O'Malley*
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The Berkeley Daily Planet has discovered that the company that has prepared its payroll for eight years vanished from its Oakland office shortly after the first of this year, leaving behind a trail of unpaid taxes and embezzlement charges. The Planet is not the only victim of what looks like a major fraud and a possible Ponzi scheme worthy of Bernie Madoff—the company claimed that it had more than 100 clients. Most of them are small businesses or nonprofits, and it seems likely that most of them have been stung. The total take could be in the millions of dollars.



No one—except perhaps the perpetrator—yet knows where the money might have gone, but the company founder has been reported to be in the Philippines, where he set up the company's offshore data processing and call center operation. At least one customer has already filed a criminal fraud complaint, and on Tuesday the Planet filed a civil suit against the company alleging theft, fraud and more.

Clickbooks.com Inc. maintained a small dingy office in a warehouse on 98th Avenue. Clients who went there to pick up paychecks for their employees occasionally encountered founder Bill Norgren in the back room. His mother, Ellen Norgren, was a constant presence in the front—the Planet's publisher saw her there not long ago reading right-wing political tracts and denouncing Obama's health care plan.

But online, Clickbooks.com posted a glamorous professional profile to attract potential clients. A website revealed that the company was founded in 2000 by Bill Norgren and co-founders Darryn Begun and Greg Tucker as a privately held California corporation. Clickbooks.com was identified as "the parent company" of GLOBALeSTAFF, a 65-agent call center with two technology-heavy offices in the Philippines in addition to the one in Oakland.

A number of impressive-sounding individuals were listed as providing investment and "board participation," including Danville CPA Jay Begun (father of Darryn); Hong Lu, identified as CEO of UTStarcom (an Alameda company); Conrad Hewitt, identified as a Federal Reserve Board Member (though a Google search revealed no trace of any such affiliation); and Rick Hoag of B2B Technologies.

Norgren was described as managing day-to-day operations in the Philippines. (He is also listed as the company's contact person by the state's registry of corporations.)

The Planet contracted with Clickbooks to write employees' paychecks twice a month and to make tax payments owed to the Internal Revenue Service (IRS), the California Franchise Tax Board and the Employment Development Department (EDD). Clickbooks clients like the Planet authorized the company to write tax payment checks against the same bank accounts used to fund paychecks, sending customers a form each quarter that recorded what payments had been transmitted.

When a former Planet employee tried to file for unemployment last October, the EDD told him that his wages had been reported as much less than he'd actually been paid, significantly reducing the size of his unemployment check. He called us to see if we knew what might be the problem. About the same time, our operations manager was trying, unsuccessfully, to get Clickbooks to send us our tax payment records, which we hadn't received on schedule for a couple of quarters.

The publisher picked up the paychecks as usual on Dec. 30.

That was the last time we saw anyone connected with Clickbooks.

We called their office on Jan. 4, looking for "Ferdie," our usual clerical contact, to find out what had happened to the missing forms and to inquire about the discrepancies in our ex-employee's income as reported to the EDD. The person who answered the phone said that Ferdie didn't work there anymore, and that she was only an answering service.

After that, all of our calls got only a busy signal. We went out to the office and looked in through the window. There was no one there.

Papers and furniture were strewn about, as if occupants had left in a hurry.

We never heard from them again.

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A round of inquiries to the tax agencies produced the bad news: Clickbooks had been cashing our checks, all right, but they had been significantly underpaying the taxes and pocketing the difference. We are now engaged in the painful process of trying to figure out how much we still owe the various government tax collectors.

And we're not alone. A couple of hours of Googling Norgren's name turned up other hapless Clickbooks clients.

Henry T. Fairbairn, P. E., is the principal of SDC/Structural Engineering in Alameda. He's one of several people who used very unfavorable review postings on Yelp.com to get in touch with other victims, which is how I found him.

He e-mailed me about his experience: "Our office manager saw Ferdie on Jan. 5; he seemed uneasy, and surprised to see her banging on the 98th Avenue door. He said 'I cannot lie to you, Shirley; we are going out of business.' When she asked him if the payments have been made he said, 'Yes, the payments have been made.' "

But when Fairbairn checked the forms he received from Clickbooks against the IRS's records, he found out that Ferdie wasn't telling the whole truth. He discovered that Clickbooks had been filing false returns on his behalf. Payments had been made, but they were much less than owed, just as ours had been.

Another Yelp poster, owner of a small landscaping business, said that he had used Clickbooks for many years to process his payroll and make all the required payments as required by law, but now couldn't reach them to get the W-2 forms for 2009, which every employer was supposed to file in January 2010.

When we compared notes with Fairbairn, he used the word "heinous" a lot. He's well aware that for many struggling enterprises in this shaky economy, unexpected liabilities could land them in bankruptcy.

And the victims were not all unsophisticated small-time operators. A bit more research on my part turned up a busy Berkeley law office and the longtime proprietor of Bucci's, a well-regarded Emeryville restaurant, both taken in by the elaborate scam. Like most very small businesses with limited clerical staff, they needed to rely on outside payroll services. Amelia Bucci told me she'd had a hard time finding one willing to handle the small payroll of a new café she'd started.

It seems that in all the cases I investigated, the IRS had simply not noticed, for periods of up to two years, that the payment amounts they'd gotten from Clickbooks didn't match the reports of what was supposed to have been sent.

What can be done now?

We've retained Berkeley attorney Don Jelinek to file a civil suit against Clickbooks, GLOBALeSTAFF, Norgren and his unidentified associates ("DOES 1-200"), for theft, conversion, fraud, deceit, breach of fiduciary duty, and breach of oral agreement. We'd welcome other victims to join us as plaintiffs, and we're also filing criminal charges. That ought to cover the territory if the villains are ever found.

But it's a big if.

Where might they be? Ferdie told the publisher in December that Bill and his wife, remembered by one of the clients as a Filipina, had gone to the Philippines for the holidays. Perhaps they're still there. Or maybe not.

And where has the money gone? If you multiply the potential losses of each customer by 100, it adds up to a tidy sum. The Planet alone stands to lose a minimum of tens of thousands with the possibility of hundreds of thousands of dollars depending on what back taxes need to be paid.

Henry Fairbairn said he'd coincidentally encountered someone who said he'd invested about \$15,000 in Clickbooks.com Inc., and had been receiving "profits" a few hundred dollars at a time. That sounds like it might have been a Ponzi scheme, where new marks must constantly be found to pay off the earlier ones until the whole thing collapses. That could be where the skimmed-off tax money went.

Every employer I talked to who was hit by the Clickbooks scam wondered why the IRS hadn't told them that their taxes were underpaid.

Well, the first problem is the backwards process by which the agency collects its money.

As reported on AccountingWEB.com on Jan. 14, the National Taxpayer Advocate, Nina E. Olson, submits a report every year to Congress that takes a critical look at the IRS.

One serious problem, she said in her latest report, is that the IRS processes tax returns before they process information returns such as W-2s and 1099s. That's what happened in our case. The IRS didn't notice that the amounts remitted in 2009 were dramatically less than owed because the IRS hadn't yet gotten the W-2 information which was filed in January 2010. We've been told by our tax lawyer that there can be a two-year lag before the agency discovers that payments are short, and they might never notice.

It turns out that during the Bush years the number of IRS agents took a dramatic dive, and now there don't seem to be enough of them in the agency to collect all the money owed.

The nonprofit group OMGwatch analyzes this situation in a 2008 report, "Bridging the Tax Gap."

The tax gap, the difference between what is owed in taxes and what is paid, amounted to over \$300 billion annually at the time of the report.

For comparison purposes, that much money would pay for two more wars as large as our two current ruinously expensive ones, plus covering all of the cost of the president's currently unfunded health care plan.

Dramatic evidence about why this gap exists is the decrease between 1995 and 2006 in the total number of IRS employees, down 18 percent, and in the number of IRS employees who perform audits, down by 30 and 40 percent in crucial categories.

And what's happened to the state's tax collectors? No one seems to be home in the California government anymore. Our tax guy when we last heard hadn't even been able to get the Franchise Tax Board on the phone to ask what they'd collected on our account. "Furloughs!" he said disgustedly.

Underfunded tax agencies have made it possible for dishonest citizens to avoid paying their fair share of taxes—that's been well documented by now. But they've also made it possible for crooks like these to prey on honest employers and employees who try to pay their taxes like good citizens.

We hope that the magnitude of this particular fraud will persuade the IRS to expend some of its scarce resources to catch those responsible. Perhaps the criminal investigation will find them.

We sure could use some help. We hope our fellow victims will see this and contact us, so we can work together to catch the culprits and possibly to recover the stolen money.