

**Gary Zeune:** [00:00:00] Every fraud that we talk about is a situation where really smart people to do really stupid stuff.

**Peter Margaritis:** [00:00:17] Welcome to Change Your Mindset Podcast, formerly known as Improv is No Joke, where it's all about believing that strong communication skills are the best way in delivering your technical accounting knowledge and growing your business. An effective way of building stronger communication skills is by embracing the principles of applied improvisation.

**Peter Margaritis:** [00:00:37] Your host is Peter Margaritis, CPA, a.k.a. The Accidental Accountant. And he will interview financial professionals and business leaders to find their secret in building stronger relationships with their clients, customers, associates, and peers, all the while growing their businesses. So, let's start the show.

**Peter Margaritis:** [00:01:04] Welcome to Episode 21. My guest today is Gary Zeune, CPA. And his consulting practice provide CPAs, attorneys, and executives with hands-on experience in fraud, auditing, and corporate strategy performance improvement. Prior to forming his consulting practice, Gary was an Assistant Vice President of Corporate Finance at the Ohio Company, a Columbus, Ohio investment banking firm.

**Peter Margaritis:** [00:01:30] He also spent more than five years in treasury and Finance at Wendy's International where he was responsible for mergers and acquisitions, financial and SEC reporting, and corporate finance. Gary has the only speaker bureau in the country specializing in white-collar criminals, The Pros and The Cons. His 40 plus ex-con speakers tell their stories of how and why they embezzled, took kickbacks, and cooked the books to the tune of \$2.7 billion. His speakers include Mark Morse who's a former CFO at ZZZZ Best, Paul Allen who's an ex-bank CEO, and Dunlap Cannon, who is the largest real estate closing attorney in Memphis just to name a few. Our conversation centers around fraud, and why people decide to cross the ethical line. As Gary points out, a large majority of fraud start out very very small but then spiral out of control.

**Peter Margaritis:** [00:02:35] Before we get to the interview, I want to share with you some exciting news. In the coming weeks, this podcast will be part of the C-Suite Radio library. C-Suite Radio is the home of the top business podcasts for leaders in the C-Suite and those who aspire to be. C-Suite Radio is a library of weekly online radio shows that explore the challenges, successes, and failures of guests, who are successful entrepreneurs, C-Suite leaders, thought leaders, and innovators. I'm very excited to be part of the C-Suite library. We'll let you know when the podcast can be found there. So, without further ado, let's get to the interview with Gary Zeune.

**Peter Margaritis:** [00:03:22] Hey. Welcome back, everybody. Today, I've got the man, the myth, the legend. The gentleman who knows more about fraud than most people. I tell you who my guest is, Mr. Gary Zeune. And Gary, thank you so very much for taking time to be on my podcast today.

**Gary Zeune:** [00:03:40] Hey, Pete. It's great to talk to you again. Looking forward to it.

**Peter Margaritis:** [00:03:44] Now, as you guys heard his voice, man, he's got a radio voice. I need that voice, but he doesn't do radio. He owns a company called Pros and Cons, and he talks about fraud, and he hires ex-cons to go out and teach fraud, teach ethics to the CPA community. Would that be a correct statement?

**Gary Zeune:** [00:04:06] That is right. And it's a really interesting process. I've been doing this 25 years since 1995. And you're right, one of our philosophies or one of our business model is if you don't know how to commit fraud, how are you going to catch it? Because everybody I've ever talked to that's gone to prison for fraud, they didn't know how until they figured it out. So, it's not like a magic skill that you're born with. It's a learned skill.

**Gary Zeune:** [00:04:43] And we very often -- or not we because I've not done it. I haven't gotten caught yet. It's something that you just kind of -- It starts small, and it gets bigger, and bigger, and bigger. In fact, I wrote an article for The New Jersey CPA Society a few years ago called Fraud and Theft Start Small. And if you look at the pattern because, most people, the only thing they ever see when they read about a

fraud case or hear about it, "Oh, Bernie Madoff blew up \$165 million" or "The bookkeeper stole \$2 million." Well, they never start at the amounts you read about in the paper. They always start small. And then, it gets bigger, and bigger, and bigger.

**Gary Zeune:** [00:05:25] Just like your 15-year-old, a curfew on Friday night is 11:00, and they come home at 11:30, and you don't do anything about it. The following weekend, your 15-year-old is going to come home or the following Friday, your 15-year-old is going to come home at 12:00 because by coming home at 11:30, what they're doing is they're testing the control. What's the control? You're the parent, you're the control. And employees, and clients, and staff, and bosses, do exactly the same thing. Why? Because it's human nature.

**Gary Zeune:** [00:06:02] And so, you're right that all of this stuff we're going to talk about in the podcast, everybody has seen all of this stuff. So, basically, what we're going to do, Pete, is we're going to take the same information, and we're going to re-frame it, so people can relate to it.

**Peter Margaritis:** [00:06:17] So, my big question, I don't think I've ever asked this. I mean, I've known you for a number of years, but I don't think I've ever asked this question. How did you get into this business? How did Pros and Cons start?

**Gary Zeune:** [00:06:28] I got lost on vacation.

**Peter Margaritis:** [00:06:31] (Laughs).

**Gary Zeune:** [00:06:31] That's everybody's reaction. No, I did not say it. I don't know if you ever seen the data, but 80% of all the most profitable products and services started by accident. And, usually, it's when a customer figures out how to use the product or service for something that the company that sold it to him didn't anticipate.

**Gary Zeune:** [00:06:58] So what happened was -- And by the way, that's a great profitability strategy is if you want to know how to make more money, talk to your customers and find out how they're using your product or your service. And they'll tell

you what they're doing, things you would never think of in a thousand years. It's that very few things that are really profitable is somebody sitting in a corner thinking it up because you got to do it. You got use it to think of.

**Gary Zeune:** [00:07:24] So, what happened with me was by accident, which is also one of the primary ways the fraud gets caught. That's how these two things are related. What happened was I was in Washington DC, I was teaching there, and my sister and his husband lived in DC at the time. So, I would always teach during the summer. I would take my daughter who, at this point, was 13 years old. And she was just starting to really get into clothes and things like that. So, she wanted to go down to the Potomac Mills outlet mall in Northern Virginia. And she's always been a really frugal shopper like I am.

**Gary Zeune:** [00:08:02] Well, we'd flown over from Columbus, Ohio. And I borrowed my sister's car. We're going down I-95. And I can't remember what exit the mall was on. I didn't have enough sense to ask my sister. I thought, of course, being a guy, I knew where it was, so I didn't have to. I couldn't remember. It's been years since I've been there. And so, I stopped at a gas station. I get off the freeway. I'm just pulling off on the first gas station off on the side street there, get the directions. I walked out, I looked across the street, and here's an old Hechinger Hardware store.

**Gary Zeune:** [00:08:34] Now, Hechinger Clothes, oh, it's got to be 20 or 25 years ago. And the easiest way to think about Hechinger is it was like a half-size Lowe's. So, think of a typical Lowe's store. And they've taken the sign up, the Hechinger sign off the front, and they put up a big banner that says, "Giant Book Sale." I love to read. So, I pulled across, I get out of the car. The automatic doors opened up, and I walked in. And the only book standing up on edge on the -- Now, imagine walking into a half-sized Lowe's. Let me set the stage for you, the visual here. Imagine walking into a half-sized Lowe's, all the floor-to-ceiling shelving is gone, and it's full of folding tables with books, a foot or a foot and a half feet. So, it was like a sea of books.

**Gary Zeune:** [00:09:27] So, this is what's called a remainder bookstore. What they do is they buy overstock and slightly damaged. And they don't even know what they're

getting. They're literally buying by the truck load, semi-truck load, and they'd buy by the pound, about 10 cents a pound. I didn't know what they're going to get. So, imagine a sea of books, and the only book standing up on the edge like this, so you could see it, on the very first table. So, automatic doors opened, imagine this. Automatic doors opened. First table right in front of me, the only book on that table standing up on edge, all the others were laid down flat like this.

**Peter Margaritis:** [00:10:07] I got it. I got it.

**Gary Zeune:** [00:10:08] This will be on the edge was a book on fraud. I paid \$2 for it, and that's how the whole thing started. So, it took me about -- Oh, the book was Faking It In America by a guy by the name of Daniel Akst, A-K-S-T. Akst was a reporter, business reporter at The LA Times back then. This is 1994. I'm sorry. It's was '87 when he was at the Times. So, he writes this book about this guy by the name of Barry Minkow. And Barry Minkow, M-I-N-K-O-W, committed probably the most outrageous fraud of the '90s. I mean, it's a classic story. This is so outrageous. The Security and Exchange Commission even changed the rules because of what this guy did. This happened in 1987.

**Gary Zeune:** [00:11:06] So, I paid \$2 for the book. I take two or three nights to read through it. I realized when I get to the end, because he wrote it from a business reporter's perspective, so I realized when I get through it, I need to write my own book for CPAs on fraud, and I'll use this as a classic case. So, why use ZZZZ Best as a classic case? The answer is because Barry started the company when he was 16 years old, and he'd never gone to college. And by the time he was 21 years old, he'd stolen \$100 million.

**Peter Margaritis:** [00:11:41] Wow.

**Gary Zeune:** [00:11:41] And he had five auditors over -- I'm sorry. He's had three auditors over a five-year period of time. He fooled a sole practitioner for two years. He fooled a small Southern California firm for two years. And then, finally, they were going to take the company public. And, now, think about this, never been in college. He fools

three accounting firms. So, if you remember the big junk bond investment banking firm, Drexel Burnham-

**Peter Margaritis:** [00:12:12] Yeah.

**Gary Zeune:** [00:12:12] ... and Michael Milken created the entire junk bond market based on his Master's thesis in college that if you made a wide enough dispersed investment in junk bonds, you'd end up with a premium yield without a lot of additional risk because you diversified. That's how I tell Drexel Burnham got to be a world powerhouse investment banking firm, and steal Milken's idea. And so, Milken was in Hollywood, at this point, by Beverly Hills at this point. And Milken and his team were getting ready to do a \$600 million public offering for ZZZZ Best. And Milken said -- I should say Drexel said, "We don't do offerings on IPOs with anything other than Big 8 accounts, Big 8 firms."

**Gary Zeune:** [00:13:08] And I used to be an investment banker and did IPOs in private places. And so, the issue from an investment banking perspective, it has nothing to do with [inaudible]. It's a marketing issue because what happens is the way human brain works, among others, is that if we recognize what we're looking at, we tend not to evaluate it. We assume the new information from that same well-known source has the same level of quality and credibility as what we're used to. We don't independently vouch it.

**Gary Zeune:** [00:13:44] So, the marketing issue is if an investor is going through a prospective, "No, I think I'll buy \$10 million." You may see an accounting firm that says, "The financial statements are fairly stated blah, blah, blah. Signed Joe Snard & Associates. Well, who the hell is Joe Snard & Associates?" And so, it creates this little voice in the back of their mind, I wonder if I can rely on the financial statements versus if they see any big-name firm, "Oh, I know them," and they'll go right on by.

**Gary Zeune:** [00:14:10] So, the reason to require a Big 8 firm is to avoid the creation of doubt in the investor's mind. So, at this point, Barry is using a local CPA firm in the Los

Angeles area where the company was based. And here's an interesting point, remember I said they fooled a sole practitioner for two years?

**Peter Margaritis:** [00:14:34] Right, right.

**Gary Zeune:** [00:14:37] The sole practitioner was in New Jersey. It's a California firm. So, why? Because they're not going get on a plane every time. Then, they'd look at an invoice and come out. It's easier. So, Barry and his CFO, Mark Morse, who's one of my top speakers, Mark was the CFO, they go out and interview all the Big 8 firms. Now, this is late '84, early '85. And so, we still had Big 8 at that point. They interviewed all the Big 8 firms, and they picked Ernst. It could have been anybody. I mean, it just happened to be Ernst. This is all public information. So, I'm not telling stories out of school here.

**Gary Zeune:** [00:15:21] So, the question is if they interviewed all the 8 firms, why did they take Ernst? And Barry and Mark had both said that, "The reason we picked Ernst was because Ernst had a small satellite office not far from ZZZZ Best. And if we went with Ernst, we would be audited out of that office, and we would be a big fish in a small pond; whereas, if we went with any of the other firms, they didn't have a satellite office, we'd be audited out of the main office downtown, and we'd be a little fish in a great big pond, and we couldn't push them around like we could somebody who's local or a big part of their business." So, that was one reason.

**Gary Zeune:** [00:16:04] The second reason they have both said -- Well, I don't know if this was true. I don't know. It's just what they've said. Of course, they've both been to prison, so they're typically bad. And so, they have both said that the reason that they picked the Ernst folks is after interviewing all of the people that it was clear to Mark and Barry that the folks from Ernst in this old satellite office knew the least about the industry. And if you know the least about the industry, you'll be the easiest to fool.

**Peter Margaritis:** [00:16:40] So, before you go any further, what industry was this because I don't think you clarified that?

**Gary Zeune:** [00:16:46] Right. And so, the name of the company, if you all look it up with four Zs, ZZZZ Best Carpet Cleaning Construction. So, Barry starts this carpet cleaning company when he's 16 years old literally in his parents' garage. And the reason he started carpet cleaning was his mother was a telemarketer for a Southern California carpet cleaning company, and Barry used to help her. And so, he knew some about the business.

**Gary Zeune:** [00:17:12] And he started the carpet cleaning company when he's working out at the gym one day and he bumps into the guy on the treadmill next to him, who, by complete coincidence, happens to be a salesman for a carpet cleaning supply company. And so, he would sell the soap and shampoo, and would rent the self-steam cleaning machines, and things like that. But, of course, he's 16 and didn't have any money. And the guy takes a liking to him and agrees to lease Barry the machines. And that's how he got started at the age of 16.

**Gary Zeune:** [00:17:51] Over the time Barry was 21, just to give you a frame reference, he had 1300 employees. Their advertisements and their TV ads were so good, and they are hysterical, by the way. There are a few of them. I've got a few of them posted on our website. The TV ads were so good they won Clio Awards.

**Peter Margaritis:** [00:18:11] Wow.

**Gary Zeune:** [00:18:10] Now, Clio are like the Oscars and the Academy Awards for TV advertising. They are absolutely hysterical. And you go on YouTube and just type in ZZZZ Best TV commercials, and you'll get a whole bunch of it. And this is from 30 years ago. And, I mean, still today, you'll laugh. So, Barry, being 16, he can't get a checking account in California. You have to be 18. So, he would go clean somebody's carpets, and he did mostly at homes and really small businesses. So, he'd clean somebody's home carpets. Usually, it was a wife that was there. And so, she'd hand him a check. He doesn't have a checking account, he can't cash it.

**Gary Zeune:** [00:18:50] So, all the question that I always get is, "Well, how did the fraud start?" Well, Barry can't cash his checks. So, Rick's Liquor Store is two blocks away



from his house or where his mom lived. He goes down to Rick's Liquor Store, and he would endorse the checks that these customers had given for 75 bucks to clean the carpets. He endorsed the checks over to Rick. And then, give Rick his bills to pay the lease on the machines, and the soap bill, and things like that.

**Gary Zeune:** [00:19:20] Well, one day -- And by the way, and Rick would then make up money orders for Barry. So, one day, Barry is there doing his money order thing, and Rick gets a telephone call, and goes in the back of the store, and take it. Well, Barry is short that week, so Barry just reaches into the back of the money order box, takes one out, puts it in the machine. Punch, punch, punch, ka-ching, the entire \$100 million fraud started with a \$200 store money order.

**Peter Margaritis:** [00:19:50] Wow.

**Gary Zeune:** [00:19:51] Yeah. And then, five years later, ended up \$100 million. So, more of the story is that just like when your teenager comes home half an hour late, and you don't do anything about it, he goes, "It's immaterial. It's a small amount of being late," then what's going on? They're testing the system. And so, frauds, if you don't do something about fraud, or somebody just doing something like cheating on their expense. So, the expense report might be \$1000, and it turned in \$12 fake tab. If you don't bust the over it, that's assuming you catch it, you're not going to catch all of this stuff, but when you do catch them, if you don't do something about it, and make the punishment worse than the crime, they're going to do it again. And it will get bigger, and bigger, and bigger. That's where it always starts.

**Peter Margaritis:** [00:20:39] So, again, your business gets started by buying a book in this bookstore about fraud, learned about ZZZZ Best, and you said that the CFO, Mark Morse, is one of your speakers who goes out. So, your business model is you hire ex-cons to go out and present, basically, what they've done to teach accountants the aspect of fraud, so they can be better at detecting it. We're not teaching the accountants to conduct fraud. We're teaching them how to look for it, correct?

**Gary Zeune:** [00:21:14] Correct. Well, people say -- Well, in fact, I'll give you an example. One day, there was a really interesting article. We've been profiled in The Wall Street Journal probably 4, or 5, or maybe 6 times, New York Times. And the first time, there was an article about a small California company. It's a bit like in the late 1990s, didn't have very much internet back then. And I went to contact this small California company, and I couldn't find them. Brand new startup.

**Gary Zeune:** [00:21:43] So, I know a bunch of reporters at The Wall Street. So, called him up -- His name was Joshua Harris Prager -- and said, "Hi. My name's Gary. And I really liked your article that you wrote yesterday. And could you give me -- I'd like to talk to the folks at the company you wrote about yesterday." So, he was really nice, and gave me a name and a phone number. And he says, "Well, Gary, what do you do for a living?" And I said, "I like to teach people how to commit fraud." So, it was like getting tabs on the other end of the phone. And 10 seconds later, he says, "Isn't that illegal?" This is before 911, and so you wouldn't joke about this stuff. And I said, "No, it's not illegal, It's just like bombs. It's not illegal to design a bomb. It's only illegal to actually do it and explode it. But having the knowledge how to do it is perfectly legal."

**Gary Zeune:** [00:22:42] So, we used to get a lot -- As we talked about earlier, we used to get a lot, but we used to get some push-back. You're using ex-cons. And my response always is, "Well, if that weren't okay or if it's not okay, then why does the FBI do it?" Because the FBI has a lot of crooks come in and teach agents at Quantico. We taught at Quantico years ago. But if you don't understand, why do you think the FBI has profiles? Why do you think they have crooks or, hopefully, former crooks teaching the agents? Because it's a whole different mindset. And it's like this, "Well, where's the serial rapist or where's the bank robber going to hit next?" because everybody has patterns and use those patterns as part of the control process.

**Gary Zeune:** [00:23:38] And so, we used to have a lot of pushback. And so, my response would always be, "Yeah. I understand why you don't like it but let me ask you a question. If it's not okay, why is the FBI doing it? And so, if the FBI can learn from people that have done wrong, why are we too good to learn? So, we used to get a fair amount of pushback 20 to 25 years ago. Rarely getting it nailed because it's much more

calm. Back when I first started 25 years ago, nobody ever brought an actual white-collar criminal at a class to teach. And so, I'm the buffer between my clients, and CPA societies, and banks, and et cetera, et cetera, and my ex-con. So, if anything ever goes wrong, then it's on me.

**Peter Margaritis:** [00:24:30] So, can you, at least, name some of the ex-cons that you have in your stables that go out and teach for you?

**Gary Zeune:** [00:24:38] Yeah. Well, probably, my most requested speaker -- Well, actually, I got two. One as Mark Mores, as I mentioned. And Mark was the Chief Financial Officer of ZZZZ Best. Mark did four and a half years in federal prison. And when I first started this up and created my speakers bureau for white-collar criminals, we have 45 speakers now, half are white-collar criminals, and they range from Teri Lyn Norwood, who was a bookkeeper, stole \$18,000 to one of my newer speakers, Paul Allen, who had a PhD in Finance, was a finance professor, and long story short, did 44 months in Federal Prison for \$2.7 billion with a B, \$2.7 billion bank fraud and everything in between.

**Gary Zeune:** [00:25:31] And so, we've got theft. We've got cooking. By the way, never stole a dime. It's all cooking the books, keep the bank afloat. That's another hour-long story. But regardless of what kind of entity that they worked at, whether it was government, nonprofit, public company, private company, or the dollar amount, whether it was \$18,000 or \$2.7 billion, there are several really common elements. One is they don't think they're going to get caught.

**Peter Margaritis:** [00:26:01] So, ego gets in the way.

**Gary Zeune:** [00:26:03] Ego gets in the way. And, well, I read about a case, and I won't be that stupid. No, but you'll do something else stupid that will get you caught. And they just don't think about that. So, why would they be so stupid to think they aren't going to get caught? Well, let me ask you a question. Anybody ever break the speed limit when you drive your car?

**Peter Margaritis:** [00:26:21] Everybody.

**Gary Zeune:** [00:26:21] Everybody, including me. And so, why do we do it, it's illegal? Because we think we're going to get away with it. Just the same as somebody cheating on their expense report or cooking the books at the bank for \$2.7 billion. And so, one is Paul Allen and Mark Mores is probably one of my two most-requested speakers. The other most requested speaker is Sam Antar who committed the Crazy Eddie Fraud.

**Peter Margaritis:** [00:26:52] I like that.

**Gary Zeune:** [00:26:55] Crazy Eddie, that was a retail electronics dealer in New York and had some stores in New Jersey, world famous case. And because both of those cases, by the way, are in every accounting textbook. And so, we do a lot of university presentations. And I, typically, will do it when I'm traveling and teaching. I'll go to a local university of UNC or USC out in California. And then, I'll Skype one of my speakers in. And the students and even the faculty, they've been teaching this stuff for years, they've never actually talked to a real white-collar criminal. So, it makes it real. And the student and the faculty just love it.

**Peter Margaritis:** [00:27:35] Oh, yeah. If I was a student or just even a CPA to hear from the one who perpetrated the fraud, and how they did it, that would be much more intriguing than -- Don't get me wrong, Gary -- if you were up there basically telling their story, it's not that authentic. But there is a question I have. And you had told me when you approached Mark or anybody, in order for them to be a speaker in your stable, they have to answer a question.

**Gary Zeune:** [00:28:08] Yeah. Not many people know this, but every federal prison subscribes to the Wall Street Journal, at least, the last time I checked a few years ago. And so, we've been profiled four or five times. So, every prison, the white-collar criminals tear those articles out and keep them. So, I get a lot, and they're passed down from one generation of white-collar criminals to the next. And so, I get two or three letters a month that are handwritten saying, "Hi. My name is Joe Smith. And I'm going to be out of prison in six months. Can I be a speaker?" And the majority of them think I'm

going to give them a platform to stand up and say, "I didn't do anything wrong." I'm sorry, that's not the way it works. So, there are two questions and two things they have to do. The one requirement is they have to be out of prison. That always helps.

**Peter Margaritis:** [00:29:05] Yeah, that always helps.

**Gary Zeune:** [00:29:06] That always helps. And the second is that they had to admit what they did, take responsibility for it, and they have to answer any question that somebody will put to them because it's part of the crime. The only exception, we do a lot of media interviews, and so I'm always on the line moderating. And so, I tell the reporter, "You can ask him any question you want, except the only thing that's off limits is their personal sex life unless it's got something to do with the crime." Like you stole money while having an extramarital affair, then it's fair game because it's part of the crime, but you're not going to go down that trail just to be sensational. And I'm going to tell you right out, and if you won't commit to not talking about that, we're not going to do the interview. And if you commit to not talking about that, and you do it anyway, we'll never talk to you again. So, you're in charge of this interview.

**Gary Zeune:** [00:30:04] So, probably 9 out of 10 letters that I get from prison. They think they're going to be able to stand up and say, "Hi. I didn't do it." Always, I tell everyone of my speaker, "If you ever do that, and you may well be innocent and didn't do anything wrong, that's not what the jury said." So, we have to go with what the jury said. And so, if you stand up and protest, "I didn't do anything wrong, I was wrongly convicted," one, nobody is going to believe you. You will have a really bad hair day at work because you've got 600 people in the audience that don't believe a thing you're saying.

**Gary Zeune:** [00:30:38] I've only got one speaker where that actually fits and it's the right thing. It was a guy I've known for 25 years who's an attorney and was convicted of 107 counts of security fraud. And long story. Boy, well, I mean, that's another hour story. And he spent his entire life savings, something like \$6 or \$7 million, brought it all the way to the State Supreme Court and got every single conviction overturned.

**Peter Margaritis:** [00:31:09] Wow.

**Gary Zeune:** [00:31:10] Yeah. It's the only time I've ever seen it.

**Peter Margaritis:** [00:31:14] Wow.

**Gary Zeune:** [00:31:14] Only time I've ever seen it. So, those are -- Mark and Sam are probably the two most-requested speakers. In fact, Sam is speaking at Auburn University this year. And the other speaker is Paul Allen, the bank CEO I mentioned. And then, we've got the four smaller entities. We've got some bookkeepers, we got some government folks, we got a couple of former CPA. Sam Antar from Crazy Eddie. As I said, famous case. Every student studies that case in college. And Sam was a CPA and lost his license. And he does a lot of presentations, a lot for law enforcement, FBI training, and local law enforcement.

**Gary Zeune:** [00:32:10] And so, it's really -- people, once they start to listen and say, "Oh my god, I didn't know that's the way they think." And so, listening to white-collar criminals, what it does, it gives you the ability to pick up on very small, subtle, verbal variances and visuals like how people move their hands or how they sit in their chair, stuff that most people, it wouldn't even occur to them that there is a nefarious reason that they changed how they cross their legs. And so, it's like interviewing techniques but from the people who tried to make it work but failed because they ended up going to prison.

**Peter Margaritis:** [00:32:59] So, there's one I want to talk about. And actually this person is, I don't believe is a part of your stable, but you interviewed him for CPE. I don't know how long it was. It was a live interview with Scott London.

**Gary Zeune:** [00:33:18] Correct.

**Peter Margaritis:** [00:33:20] And that was what, about 18 months ago?

**Gary Zeune:** [00:33:24] Oh, how time flies. Yeah. That was June 25th and 27th, 2014.

**Peter Margaritis:** [00:33:34] '14?

**Gary Zeune:** [00:33:35] Yeah.

**Peter Margaritis:** [00:33:35] Wow.

**Gary Zeune:** [00:33:36] Yeah, we did.

**Peter Margaritis:** [00:33:37] So-

**Gary Zeune:** [00:33:38] Yeah, go ahead. Go ahead.

**Peter Margaritis:** [00:33:38] I'm going to say. So, Scott London was a former partner of-

**Gary Zeune:** [00:33:43] KPMG.

**Peter Margaritis:** [00:33:44] KPMG out in LA.

**Gary Zeune:** [00:33:45] Right.

**Peter Margaritis:** [00:33:46] Share that story with the audience.

**Gary Zeune:** [00:33:49] Yeah, yeah. There's a degree of, "How could you be so stupid?" with a degree of, "Geez, that's really sad that you did that." And just before people think I'm feeling sorry for them, I don't feel sorry for them because they chose to do it. They got what they deserved. And kind of as a global comment, the people that this is the hardest on is the family because there's a real famous saying in the criminal justice system or environment, "It's not just the person that goes to jail that does time. The whole family does time," because it changes entire family dynamic. People end up on welfare.

**Gary Zeune:** [00:34:35] So, that one occasion with Scott] by the way. So, Scott was -- Just to give you a little background, so what he did will make some sense. And when we teach, it's really helpful to give the lay of the land because you just say, "Well, I was a CPA, I was a CFO, whatever. I was a comptroller. I was a bookkeeper. Here's what I did." Everybody will say, "Well, that was really stupid. I'd never do that." Oh, yes, you would. So, that's where the background comes in because nobody just wakes up one day and says, "I think I'm going to commit fraud." I mean, you get to the point almost.

**Gary Zeune:** [00:35:10] And so, there's usually an environment where a growing sense of dread or something in their environment, like the children are sick, and you can't afford the doctor, or one spouse lost their job, and the house was going into foreclosure. So, there's always a back story. They're all different, but the common element is there was always something going on that caused the change in behavior because we don't do lifelong bank robbers. We do people -- My speakers are people that were the typical honest -- other breaking the speed limit when we drive -- the typical honest business people of all different ethnicities, and backgrounds, and types of entities, and sizes of entities they worked at. And the common element, whether it was \$18,000 or \$2.7 billion, the common element is what was going on that caused them when they got to an ethical decision point to turn left instead of turning right.

**Gary Zeune:** [00:36:14] And so, just to give you a thumbnail sketch of Scott -- And, again, every speaker has a story. They're all different, but they all had these back stories. So, what was going on with Scott was that he was the regional audit partner for -- And, again, this is all public information. Regional audit partner for KPMG in Los Angeles. He had 500 people reporting to him. There was 50 other partners, early mid 50, 53, 54, something like that. And it was during the recession, the mortgage meltdown, so '08, '09, '10, that era. And so, he had a friend that, as I recall -- And I'll probably screw some of this up, so don't hold me to 100% here, but the general will be okay.

**Gary Zeune:** [00:37:09] As I recall his story is that he had a friend that had really started from their country club. It really started when the wives met because, I think, their kids went to the same school, or in the same class, or something like that. So,



Scott and this guy get to be friendly, and they play some golf or start playing golf. And this guy owned a wholesale, I think, wholesale jewelry store and were in the recession. Well, one of the easiest purchases to pull off when we were in a recession are discretionary items like jewelry.

**Gary Zeune:** [00:37:52] So, this guy was also a day trader. So, he starts asking Scott for information because he knows Scott's an auditor, and he's a regional partner, he's got lots of clients, and both that he personally is an -- He's the engagement partner and also oversees as a regional partner of other engagement partners. And so, initially, Scott wouldn't tell him anything, even information that was publicly available.

**Gary Zeune:** [00:38:28] And so, as things go on, this guy talks to Scott, and Scott letting. OK. So, it's a two-way street here. This guy asked and Scott started telling this guy things about companies that was public information. Now, if it's public information, even if you're the auditor, it is not illegal securities law violation to share the information. It's in the public domain already. The person you're talking to may not have not known it, but it's still publicly available information that's available. So, that's not a problem. So, the problem is that starts the slippery slope.

**Peter Margaritis:** [00:39:09] Slope.

**Gary Zeune:** [00:39:10] Right. And people say, "Well, I'd never let that happen to me." Yes, that's why when you get in your car, and you go on the freeway, you up to the speed limit. Then, you go two miles over. Then, you're three miles over. Then, you go five. You're driving for an hour. And then, you're going 10 miles over the speed limit. What happens is when your brain is bombarded by constant stimuli, the same stimuli, your brain desensitizes. So, that's why you'd be going 85 miles an hour on the freeway of 80 and not even know it because as you drive for an hour, your brain becomes desensitized how fast the environment is going by.

**Gary Zeune:** [00:39:45] And same thing with fraud. That's why frauds always start little and get bigger, and bigger, and bigger. So, then, that evolves into telling the guy that information that's already public. Long story short, -- This was a four-hour webinar,

ethics webinar, so I'll condense it here. And so, that, finally, evolved into Scott calling this guy, and reading him the quarterly and annual earnings press release 24 or 48 hours before it hit the wire service. So, this guy was able to trade on inside information. And what they did -- Oh, yeah, it gets better.

**Peter Margaritis:** [00:40:24] Yeah, yeah.

**Gary Zeune:** [00:40:24] So, what they didn't know apparently was that the SEC has a fairly sophisticated algorithmic system like Google does, and they look not only at the dollar amount of trade, but they look for aberrant patterns in the trades. So, a real common one is whenever a major M&A deal is announced, they look for aberrant trading in the shares in the two, three, four, or five days before the announcement. And if there's aberrant trading, there's probably an information leak, and there's a good chance somebody is trading illegally.

**Gary Zeune:** [00:41:02] And so, the FBI confronts this jeweler because he's the one that's trading. The SEC has access of all the trades. And they confront this guy. Long story short, they flipped him, and he wears a wire. And in the classes I teach that has that case in it, I have a picture that was on the front page of either the The Wall Street Journal, or The New York Times, or LA Times, or one of those three of Scott accepting a brown paper envelope with \$10,000 in the parking lot. I think, it was outside the jewelry store. That picture was taken from the inside an FBI van with blacked out windows.

**Peter Margaritis:** [00:41:45] Yeah, I've seen that picture. Yeah.

**Gary Zeune:** [00:41:46] Yeah. And so, I've got video clips that were on the Los Angeles TV stations. And so, every fraud that we talk about is a situation where really smart people do really stupid stuff.

**Peter Margaritis:** [00:42:03] And that was my whole thing. I mean, he knows better. I think, he was making \$800,000 in LA, which is about \$25,000 here in Columbus, Ohio

equated, and a family, and everything. And he felt bad for his friend, so much so that he went to jail.

**Gary Zeune:** [00:42:21] He didn't go to jail for feeling bad for his friend. He went to jail for what he did, not that he felt bad for his friend. So, you can feel bad for your friend. So, you can't control your emotions -- You're sad, you're happy -- but you can control your actions. That's where people get into trouble. And one of the explanations you hear all the time when people are being sentenced or trying to explain themselves in court, "Well, I was trying to help Sally out." Yeah, but you broke the law, and you knew better.

**Gary Zeune:** [00:42:51] And Scott talks in his presentation. Scott readily and willingly talks about, "I signed the firm's ethics agreement for 30 years. I knew better, but it was-" And he talks about how he's going through a lot of therapy to understand why being an ethical person, he did such an unethical thing. And so, moral of the story is that most people think that there is a bright line on ethical behavior. No, that's not the way it works. Ethics is not absolute. Ethics is situational.

**Gary Zeune:** [00:43:33] And so, here's a really easy way to understand it is we all -- like you, and I, and everybody listening -- we all drive five miles over the speed limit. Why? Because it's socially acceptable. That's our rationalization. Remember the triangle fraud?

**Peter Margaritis:** [00:43:49] Right, exactly, rationalization.

**Gary Zeune:** [00:43:50] So, it's rationalization. I'm just keeping up with the flow of traffic. That's our rationalization. Well, it's illegal. That doesn't make it -- Is there such a word as unillegal? It doesn't make it legally okay, but it's socially. And somebody will always say in class, they'll say, "Well, if you're only going five miles over the speed limit, the cops will pass you." Well, they're breaking the law too.

**Peter Margaritis:** [00:44:13] Right.

**Gary Zeune:** [00:44:16] But would we -- Have you ever driven 40 miles over the speed limit?

**Peter Margaritis:** [00:44:20] No.

**Gary Zeune:** [00:44:20] I have. Fastest I've run when I'm on my motorcycle was 105. That was really stupid. So, it's dangerous. So, I stopped that and started skydiving.

**Peter Margaritis:** [00:44:28] Yeah, much safer.

**Gary Zeune:** [00:44:30] Yes, it's safer. Remember, it's not the fall that kills. It's the sudden stop. So, understand that behavior is not absolute. It's relative, and it's situational. So, when would you break the law driving 30 or 40 miles over the speed limit? When you have a medical emergency, and you're taking your child to the hospital. So, your child, your child's health and well-being is more important than you staying five miles over the speed limit. You change your behavior and break the law even more because there's something more important to you in this situation than the speed limit.

**Gary Zeune:** [00:45:14] And that's why bank CEOs cook the books for \$2.7 billion. That's why Scott gave this guy illegal inside information, got like \$70,000. And Scott was making over mid-six figures, and he lost his CPA license over \$70,000. So, let's say he's making 500 or 600 a year. You multiply that times 10, or 15, or 20 years, that's a pretty good-sized number, and he lost it over \$70,000. So, I thought \$70,000 over \$5 million was immaterial.

**Peter Margaritis:** [00:45:52] Yeah. It's a-

**Gary Zeune:** [00:45:54] It's immaterial why did he lose his license.

**Peter Margaritis:** [00:45:56] Right. I have read up on this. And the part that, I think, because we don't think we're going to get caught, but when we do -- And please correct me if I'm wrong. And once it was known and he was -- EY, at the time, put out an email

to everybody in the company with the indictment, with that picture, and basically said, "Nobody should have contact again with Scott London."

**Gary Zeune:** [00:46:25] Yeah. First of all, it was KPMG, not EY.

**Peter Margaritis:** [00:46:26] Okay. thank you.

**Gary Zeune:** [00:46:28] I mean, if you want to talk about EY, I've got plenty of those cases too. Give me a big-name firm, and you got lots of people, you know what, it's going to happen because it's human behavior.

**Peter Margaritis:** [00:46:37] Right.

**Gary Zeune:** [00:46:38] Yes, the firm did put out, in my recollection, so I can't swear to this, but my recollection is -- Because I look at so many of these cases, and they have a lot of common elements. It's kind of like forgetting where you parked your car.

**Peter Margaritis:** [00:46:50] Yeah, all the time.

**Gary Zeune:** [00:46:52] And, yes, my recollection is that the firm did put out an email. And I don't remember all the content though to that level that you just mentioned but told staff. "We're not going have any contact with Scott." So, it's kind of like being banished from the tribe, or the group, or something like that.

**Peter Margaritis:** [00:47:12] Yeah. And, I mean, literally, if you think that it happened, literally, overnight. So, he was fine one day. Next day, he's in a worse situation, and the firm that he's been with has completely cut him off. "You're dead to me, Scott." As the firm would say, "You're dead to me." And then, everything that happens with his family, everything leading up to this. And I read some stuff that he said is, "I never meant to hurt anybody." All the kind of remorseful things that one would expect, but, still, why did you think about that? And you've talked about the behavioral aspects. We probably do, at some point, but it's that slippery slope. It's just I'm getting a little bit -- I mean, that's how Barry Madoff started small, right?

**Gary Zeune:** [00:47:57] Yeah. Barry Minkow?

**Peter Margaritis:** [00:47:59] No, Bernie Madoff. I'm sorry.

**Gary Zeune:** [00:48:02] Bernie, Bernie, yes. Madoff, which was absolutely astounding it went on. That Ponzi scheme went on for 30 years. I think, the average for Ponzi scheme just like the 18 months or two years. So, Madoff was just extraordinary. And, yes, they all start small. Now, small is relative. For example, I'll give you a real example, WorldCom has the largest financial reporting fraud in the United States' history, \$11 billion. And the whole WorldCom fraud started with a \$10 million journal entry and ended up with \$11 billion. So, yeah. So, \$10 million out of \$11 billion would be like the bookkeeper in a little nonprofit stealing \$5000 in a \$5 million nonprofit. So, the number can be different in terms of that. So, \$5000 versus \$10 million, but, relatively speaking, they usually are about the same size.

**Peter Margaritis:** [00:48:59] So. two comments there. One, shouldn't we have known about Bernie just by his last name, "Made off"?

**Gary Zeune:** [00:49:03] I "made off" with the money?

**Peter Margaritis:** [00:49:06] "Made off" with the money. And two, I have 600 shares of WorldCom. Would you like to buy them from me? Yeah, because the auditor signed off on the financial statements. I've got 600 shares. I actually tried to get the certificates. I got to hang it in my office from WorldCom. So, as we begin to wrap up with this, can you give the audience -- What advice do you give the audience when you talk about this to keep them from perpetrating fraud, or is there any advice?

**Gary Zeune:** [00:49:40] Well, yeah. There's a couple of things to think about. And one is understand if the situation is right, if the stresses, whether it's a sick child, or house payment, or a really in and private businesses is getting the bank loan renewed. And so, one of the things I always say, look at what the requirements are. And private businesses, it's generally the bank loan will have covenants for working capital ratio,

and debt ratio, and restrictions on dividends and blah, blah, blah. Every one of those is a fraud risk because if the company doesn't meet those benchmarks, then that's when you renegotiate the bank loan. The interest rate is going to go up, compensating balances go up, covenants get tougher.

**Gary Zeune:** [00:50:29] So, moral of the story is that every contract that the entity is -- And I'll just say company generically. It could be a nonprofit government entity but just company generically. Every contract, every legal obligation that requires something from the company, some level of performance, or some prohibition of activity is a fraud risk. Every one of them. And every one of those things better be in the audit program. And so, simply knowing what the tipping points -- I steal that term from Malcolm Gladwell -- knowing what the tipping point are.

**Gary Zeune:** [00:51:08] And so, think about this, the reason WorldCom made the \$10 million journal entry -- I mean, WorldCom, at the time, was a \$30 billion company. So, why would they do a \$10 million journal entry to cook the books? Because they needed to round up over half a penny, to round up to the next whole penny, to make the Wall Street consensus earnings per share rather than if they didn't do the \$10 million journal entry, it would round down, and they would miss the Wall Street expectations by a penny. So, it was like 75 cents or something. So, I thought if you move it from -- if the journal entry moved from 74.4 to 74.6, so it would round up to 75, I thought two-tenths of a penny out of 75 was immaterial. Well, if it wasn't material, they wouldn't do it. By definition, when they cooked the books, regardless of the amount, when they cooked the books, or the most common one with most clients is a small business owner running personal expenses. If it weren't material to them, they wouldn't do it.

**Peter Margaritis:** [00:52:19] Yeah. I've got a story on that one myself.

**Gary Zeune:** [00:52:21] I've got 500 stories.

**Peter Margaritis:** [00:52:23] Yeah, yeah.

**Gary Zeune:** [00:52:26] And doing what I do. And we can share all those in future podcasts, but the big picture is two things. One is understand materiality is not just about the size of the number. It's the result of the size of a number because the audit standards say if a user would make a different decision, then the number is material. And here's a way to think about that is there are over, on average, 112,000 commercial airline flights every day in the United States. So, if just one of them crashes, why is it on the news? It's immaterial.

**Peter Margaritis:** [00:53:12] Yeah.

**Gary Zeune:** [00:53:12] Right?

**Peter Margaritis:** [00:53:14] Right.

**Gary Zeune:** [00:53:14] Yeah. So, really simple examples that we all see in everyday life, if you use those to talk about what we do, it reframes what we think about materiality. If the two-tenths of a penny to round up to 75 instead of down to 74, if that wasn't material, they wouldn't have done it. Don't ever believe that just because the number is small, it's automatically immaterial. Just flat not true. So, that's one thing is understanding materiality because, remember, why was two-tenths immaterial? Because it's human behavior, because the market will react. If the market didn't react, they wouldn't have done the \$10 million and moved it too again.

**Gary Zeune:** [00:53:57] So, the second thing is stop doing the same damn thing all time. That's how we let people fool us. Whether you're a controller, CFO, or an auditor, it's not the work itself. It's not checking the invoices and adding up the column numbers. It's doing it the same way all the time because you just taught people where not to put the fraud because they know where you're going to look.

**Peter Margaritis:** [00:54:21] That's great advice, and human behavior. So, why did they move? Why did WorldCom do that? Why did they book those expenses and capitalize on them? So, they increased the profitability. It goes to bonuses. It goes to the stock



price. It goes to all of this stuff. Basically, an emotion is your wallet, and the size of the wallet can create a lot of emotion.

**Gary Zeune:** [00:54:43] Yeah. If that weren't true, salespeople would be paid hourly.

**Peter Margaritis:** [00:54:47] Exactly. And you're right, Gary, we could talk hours on this. And maybe we do something and create a series of this because you are the fraud guy, I mean, not in that sense, but you know more about fraud than the most, especially in this profession, and can talk to real-world situations that have occurred to help us become better at detecting fraud. So, once again, I want to thank you for your time. This has been -- We just touched the tip of the iceberg because there's so many other ones that come to mind that I would love to learn more about because I didn't realize was [inaudible], and London, and a few things that I didn't know. But thank you again. Great guest, great information. Tell people how they can find you.

**Gary Zeune:** [00:55:39] If they simply Google my name, according to Google, I'm the only person in the world of my name, and you get three pages of hits. You'll find the Wall Street Journal profiles and The New York Times. Just click any of those. They almost all contain our contact information, how to get me. And one of the things that will pop up, we've got 60 some articles on our website. Those will pop up. So, just Google my name. That's the easiest way to find us. And when we do the -- If we do the next one, then we can talk about my visit interview with Barry Minkow at Lompoc Federal Prison and how the whole thing started.

**Gary Zeune:** [00:56:20] So, what I'd like to know from the folks that are listening, if you like this, and you like to dig deeper into some of these cases -- now, I've got over 5000 slides on fraud cases -- click the like button, send us an email, and kind of tell us what you think. And if you would like to have some more, Pete and I will put the other for you.

**Peter Margaritis:** [00:56:41] Yeah, that's a great idea. So, one thing, I will put a number of his articles in the show notes for everybody, as well as you'll get to see Gary. And if this is something you think that you'd like to see more of, you can email me at [peter@petermargaritis.com](mailto:peter@petermargaritis.com). You can go to any one of my social media sites and make

a comment about, "Love the episode on fraud. I'd love to hear more about that." Any feedback that you can give us, that would be great and greatly appreciated. So, for now, Gary, thank you very much again. Thanks a lot.

**Gary Zeune:** [00:57:15] Thanks for having me on. Hope to see you soon.

**Peter Margaritis:** [00:57:20] I hope we'll see each other as soon as well. So, thanks guys.

**Peter Margaritis:** [00:57:27] I want to thank Gary for taking time out of his schedule to be a guest on my podcast. I have put links to a number of Gary's articles in the show notes for your reading pleasure. In addition, we would like your feedback on today's podcast by answering a quick two-minute survey that you can find the link in the show notes. We greatly appreciate your feedback.

**Peter Margaritis:** [00:57:47] In Episode 22, which airs on February 18th, at the time of this recording, a guest has not been identified, but we'll have one for that episode. So, thank you for listening. And if you're enjoying the podcast, please subscribe and share this episode with a friend.