

The Pros of Cons

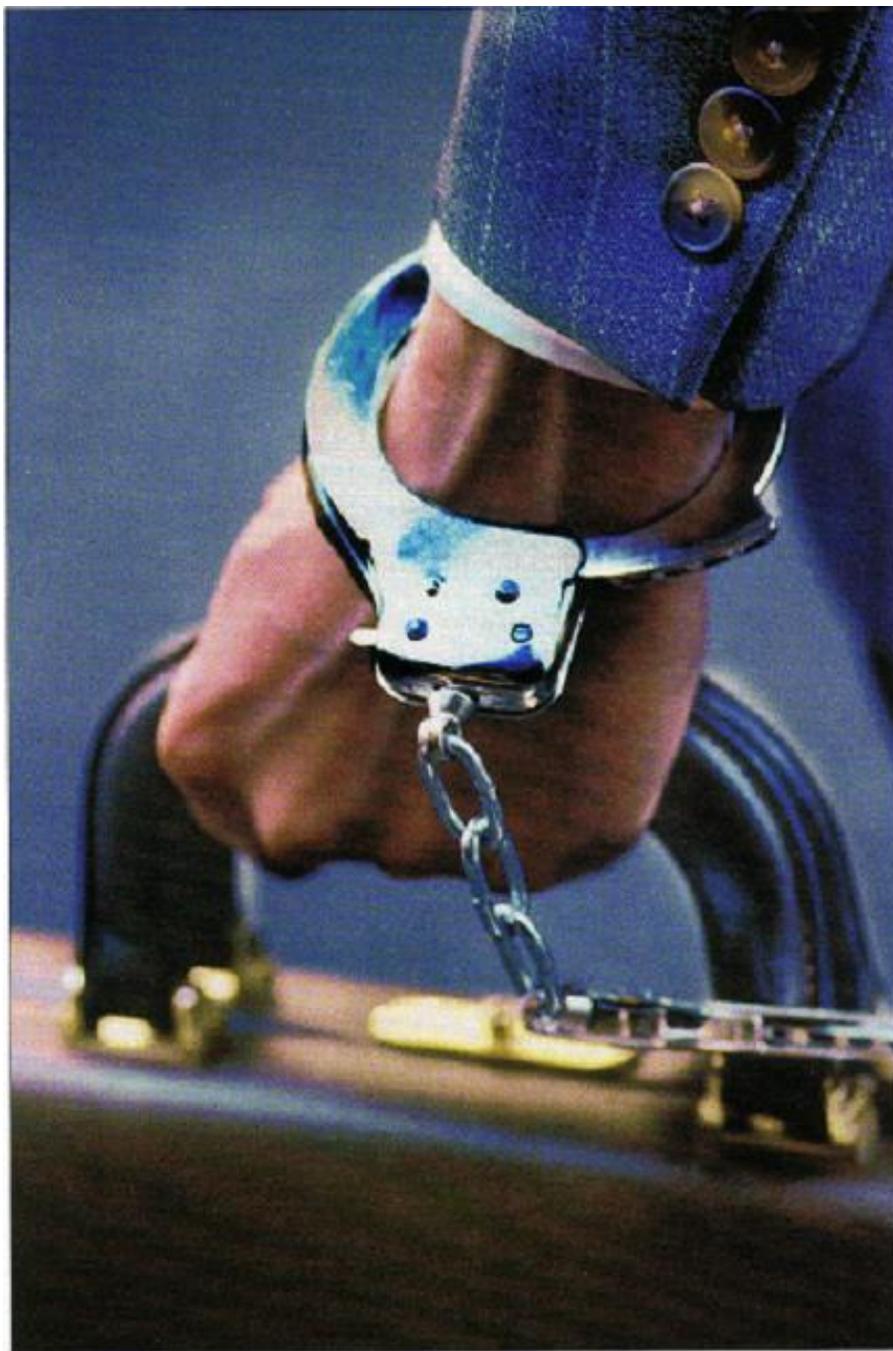
HIRING WHITE COLLAR CRIMINALS TO FIGHT FRAUD IS GREAT FOR BUSINESS. BUT IS IT GOOD?

BY MICHAEL GOLDSTEIN

Daniel Bubalo, 50, knew nothing but success during his first 20 years in business. He started with Kidder Peabody in 1978 as a stockbroker, opened an office with Drexel Burnham in Minneapolis, then owned his own brokerage and venture capital firm.

That was before he spent six years in federal prison and was banned from working in the finance industry. "I beat all the other executives, like Martha, to prison," he jokes.

His path to crime began when, as a venture capitalist, he took a position with a company called Omni International Trading and eventually became the CEO and chairman. The company went out of business and investors lost \$4.5 million. When SEC questions led to an FBI investigation, Bubalo was charged with wire, mail and securities fraud. After serving his sentence at Waseca Federal Prison



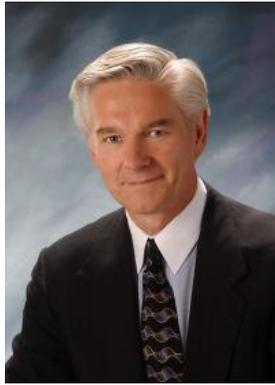
in Minnesota, Bubalo, a resident of Dallas, joined the speakers' circuit, helping companies fight fraud against people like him.

"It takes a thief to catch a thief," as convicted-hacker-turned-security-consultant Kevin Mitnick, author of *The Art of Intrusion*, often says. Like Bubalo and Mitnick, former felons are helping businesses fight fraud, test their Internet defenses and better understand the temptations employees face.

The problem is a big one, according to the Association of Certified Fraud Examiners. Its 2004 report found the United States suffers \$660 billion in annual fraud losses, with a typical organization losing 6 percent of annual revenues to fraud.

That's where these former felons can help. "You wouldn't hire a hen to guard a henhouse, but a fox," as Gary Zeune, a CPA and founder of the speakers' bureau The Pros & The Cons (www.TheProsAndTheCons.com), puts it. "Why not get the perspective of the criminal who's actually pulling the scam?"

Zeune has been a one-man rehabilitation agency, promoting



Gary Zeune, CPA
Founder
The Pros & The Cons

speakers who range from a disgraced former CEO to an accounts-payable supervisor, both of whom made company checks payable to themselves. His only rule: Before he'll work with an ex-felon as a speaker, he asks, "Are you willing to admit what you did and take responsibility for it?"

One of Zeune's most effective speakers is TeriLyn Norwood, 45, who looks unassuming enough. But she embezzled from her company by creating dummy invoices and writing checks to herself. The numbers were relatively small: She stole \$18,000 from her employees. She was sent to state, not federal, prison and has the scars to prove it.

Norwood was an accounts-payable clerk at an industrial company in California when she was ordered to pay \$20,000 in back child support. "I was making \$1,200 a month before taxes." She was turned down for a loan by her employer and could not qualify for a commercial loan. "I thought, 'I've got to get this out of my way; I can't go to jail for non-support,'" she says. "So I ended up going to prison for embezzlement."



TeriLyn Norwood

Her method was simple, but effective. "I would dummy up an invoice to a company for supplies we bought. I would input the first invoice and we'd run it through. I would void it out in the system, and type out a sticky label with my name and put it over the payee. We'd run the same check twice; one invoice was voided, one would be sent. If the controller was doing his auditing, he would have caught it earlier, but he was distracted chasing a girl in the manufacturing plant, so I was able to skate."

Norwood made checks payable to herself, deposited them in her account, then wrote child support checks to the district attorney. "I planned to pay it back, and no one would be the wiser," she says. "The circle of fraud is not only deceiving everybody else, but deceiving yourself as well."

After four months, a bank check-processing employee caught Norwood. "She got a little suspicious when she kept seeing these sticky labels on checks, so she called the office manager. When she saw my name on the check, the office manager gave me a look and walked into the controller's office. When she walked out, I walked in and admitted what I did." Norwood was terminated immediately and later arrested.

She was sent to Valley State Prison in Chowchilla, California,

Photos added by Gary Zeune,
Founder, The Pros & The Cons.

where she served 13 months of a two-year sentence. She describes the incarceration as a difficult experience, one which included acts of violence against her.

PROTECTING YOUR PC

Kevin Mitnick, a convicted hacker who now runs a security consulting firm, offers tips on keeping your computer safe.

For business users:

Kevin Mitnick recommends using firewalls, intrusion detection systems, encryption for sensitive data and authentication devices. "Don't depend on passwords; you never know when someone else knows your password. Use smart cards, tokens or biometric devices like fingerprint scanners so people can prove who they are."

For consumers:

- Run a personal firewall to protect your broadband connection.
- Update your antivirus software on a daily basis.
- Don't give out sensitive information to people you don't know.

"I can find your social security number on the internet in 30 seconds," he boasts.

-M.G.

Now, part of her appeal as a speaker is that she seems like the least likely candidate to commit such a crime. "Teri's attractive, competent and capable; the concept of what you perceive as a good employee suddenly turning a corner was a valuable lesson for our attendees," says Helen Tueffel, vice president of business de-

velopment at Apex Analytix in North Carolina, who brought Norwood in to speak. "It's like teaching medicine: If you have a live patient, it's much more valuable than just textbook learning."

In January of 2000, Kevin Mitnick, then 41, walked out of federal prison after serving four years and 11 months for penetrating the computer systems of companies like Motorola, Sun Microsystems, NEC, Novell and Silicon Graphics.

He was initially banned from using computers or cellular telephones as a condition of his probation. But in Hollywood fashion, a televised hearing with Senator Fred Thompson (now of *Law & Order*) on C-SPAN brought him inquiries from security companies – and his new career as a security consultant was born.

Mitnick Security Consulting (www.defensivethinking.com) offers security awareness, security penetration testing and training policy and procedure development. They test a company's security by trying to gain access to their premises and computer systems.

So what can a business person learn from a former hacker like Mitnick? "Security is not about buying a firewall, but managing vulnerabilities," he says. "All it

takes it one bad guy in your company, and the game is over.

"All my clients have approached me because they know about my background. They say, 'We believe that people do change,'" says Mitnick. "I have also worked for several agencies of the U.S. government. If the government trusts me to break their security, it's a great compliment."



Kevin Mitnick

His seminars range from \$15,000 to \$25,000 a day, while security consulting starts at around \$250 an hour. And Mitnick is working with Paramount to develop a new TV show.

"I'm profiting from my notoriety and my expertise, not my crime," says Mitnick.

Not everyone agrees with that. A spokeswoman for Silicon Graphics says, "We would not consider hiring that gentleman's company for security consulting or lecturing." Spokespersons from companies allegedly "hacked" by Mr. Mitnick, including Sun Microsystems, Novell, NEC and Motorola, declined comment on his move into security work.

Dianne Clements, president of Justice For All, a victim's rights organization based in Houston, says their focus is on preventing felons who've committed violent offenses from profiting. (Clements' son was murdered at 13.)

However, she says of the financial felons, “My gut instinct is how totally bogus this is. I do not believe there should be profit from crime. It is outrageous for us to reward these types of individuals. It’s particularly disturbing that corporate decision-makers think they will prevent fraud by paying criminals to talk about how they did it. Truly repentant people would be those who don’t ask for compensation. Talk is cheap – but apparently you get paid if you were a criminal.”

But in an environment where Amy “Long Island Lolita” Fisher can write a book and get on talk shows to promote it, and where there’s talk of a book and reality TV show for Martha Stewart, it’s clear the public’s fascination with felons continues.

“If Martha Stewart wrote a book about her experiences, I only hope her publisher goes bankrupt,” Clements says.

R. Edward Freeman, Academic Director of the Business Roundtable Institute for Corporate Ethics at University of Virginia, has a different view. “They’ve paid their debt to society, and they’re putting what they know how to do to productive rather than destructive use.

“The thing about white-collar crime is that everyone thinks they’re too smart to get caught,” Freeman adds. “These folks can play a very useful role.”

Toby Bishop, president and CEO of the Association of Certified Fraud Examiners (ACFE), of Aus-

tin, Texas, agrees. ACFE members have investigated more than a million cases of suspected fraud, and the organization has had several speakers who are now with The Pros & The Cons. But Bishop says, “It is our policy not to pay felons for presentations. In some cases we’ve made donations to their restitution funds. We’re paying the victims of their crimes.”

Yet he believes that the presentations do have value.

“Most businesspeople have not had the opportunity to meet a real fraudster face-to-face, and been able to see that they look like most other businesspeople. Now they understand there are people working in organizations that blend in well but have malicious intent. That can be enlightening to executives who have dismissed the risk of fraud happening in their organizations.”



Toby Bishop

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