

# WHITE-COLLAR CRIME

## FIGHTER

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Mark Morze

## Ex-Con Tells How Auditors Fail to Help Clients Guard Against FRAUD



**M**ark Morze is in the news pretty often. *Reason:* He has the dubious distinction of having perpetrated one of the biggest and most brazen financial frauds in American history.

While the 1980s may seem like ancient history to many, it was the decade in which the ZZZZ Best carpet-cleaning company soared and crashed, leaving a twisted trail of criminal devastation that took prosecutors, regulators and judges years to sort out.

Morze—who now makes a (presumably honest) living lecturing law enforcement officials, accountants, ethics students and others on how to detect and investigate fraud—spent 53 months in federal prison for his role in the Z Best fraud. (Three Zs are commonly dropped in referring to the company.)

In his capacity as “president” of Z Best’s fraudulent insurance restoration/construction division, he generated more than 10,000 bogus documents that created \$300 million in fictitious reconstruction projects.

Along the way, major banks were duped into making large loans to the phony Z Best operation and individual investors lost millions of dollars, as did others who bet heavily on a disastrous IPO.

### FROM THE RUBBLE...

Fortunately, Mark’s exploits on the wrong side of the law have produced at least some constructive lessons, especially for auditors. The auditors of record during the Z Best fiasco were Ernst & Whinney (long since merged with Arthur Young to become today’s Ernst & Young).

Mark is still baffled by the ease with which he was able to carry out his dishonest deeds without arousing suspicion from one of the country’s top accounting firms.

To help others avoid making similar costly mistakes, he has assembled a list of questions that never were asked by the auditors while the Z Best fraud was being carried out. Had the auditors asked—and insisted on answers to—at least some of the following questions, says Morze, he and his

coconspirators may have been caught before the fraud got to be as big as it did.

While many of the unasked questions were unique to the Z Best case, many apply generically to any client of any competent accounting firm.

Auditors and forensics specialists today may find the list useful in their efforts to perform accurate and effective audits that detect fraud early in the game. Here are some of the most critical questions that Mark has compiled (with explanatory comments where necessary in parentheses)...

- Does the company (XYZ Corp. for the purposes of this article) possess all of the licenses it needs to conduct the business it does? In the Z Best case, where multi-million dollar construction projects were completely faked, the company had no construction licenses, but no one bothered to find that out.

• How does the company generate the 30%, 40%, 50%, even 60% profit margins that appear on its books? (Margins that high should be a glaring red flag for any auditor.)

• Why do the company’s bids for complicated, million-dollar projects fit on a single page? (A point of obvious suspicion.)

• Why is the company constantly in need of additional cash? (Especially suspicious when the books show a booming business.)

• Why did the company waste \$2 million on equipment it could have rented for 90% less? (Maybe someone was getting a kickback.)

• Why do the auditors only get “xeroxes”—never original documents?

• Can we (the auditors) speak to at least one satisfied customer?

• Is John Doe—head of the company’s ABC Division—fully qualified for his job? (If his résumé isn’t available that’s the first sign that John may not be playing with a full deck of cards.)

• How can John Doe possibly supervise 44 different projects at the same time?

**As “president” of Z Best’s fraudulent insurance restoration/construction division, Morze created more than \$300 million in fictitious reconstruction projects**

- How can John Doe supervise so many jobs *and* go to the bank every day?
- Why does John Doe conduct business only with cashier's checks? (This unbusinesslike procedure could point to any number of fraudulent activities.)
- Why isn't John Doe on the company's payroll? (If he's stealing from the company, why would he want to be?)
- Why does the ABC Division have only one vendor providing maintenance services for it's entire multimillion dollar chain of warehouses? (A large company usually relies on several vendors for specific services, especially if its facilities are long distances away from each other.)
- Isn't it just a little strange that this particular vendor's corporate headquarters is a one-room office?
- Why is the maintenance vendor's authorized signature so different on different documents? (Forgery is often a key component of financial fraud.)
- Would John Doe mind meeting with the auditor's industry expert? (If John is legit,he should be pleased to talk about his business with the auditor's expert.)
- Have government regulatory agencies given ABC Corp.a glowing compliance report?
- Why does ABC Corp need to have the "one month per year debt free" requirement waived?
- Would a D&B on the vendors be positive?
- Why do the company's estimates for project costs always equal—to the penny—the supply sheets from the vendors? Even to the point where if the estimate was, for example,\$10,845,the supply pages all add up to exactly enough materials to be equal to \$10,845 and not, say, \$10,837.68. If the estimate is for, say, \$101,569.34, all the supply pages add up to \$101,569.34? (A great sign of book-cooking perfection.)
- How are sales taxes dealt with by ABC Corp.? If the tax is included in the price of the supplies purchased from the vendors, why aren't supplies purchased wholesale? If it is not included in the supplies, who

does pay it,and when? Does ABC Corp.have the paperwork to demonstrate how such a large amount of sales taxes was dealt with? If not,who does?

- Why does John Doe never have any financial documentation when it is needed?
- Why is there no internal CPA within ABC Corp. to act side-by-side with John Doe and other division heads—so that paperwork is ready and up-to-date?
- Why does the company's CFO have no contact with John Doe about specific projects his division is working on? (Awfully strange when big-dollar projects are at stake.)
- How can ABC Corp.'s revenues grow by 400% in six months, while the company's General & Administrative costs barely grow at all?
- Why is ABC Corp.unknown to the mainstream suppliers? Perhaps ABC's own suppliers aren't really suppliers at all.
- Why does ABC Corp.use seven different banks? This may not be a problem, but it usually pays to do some digging, because it often does point to illegal financial activity.
- Why was there never a final sign-off on one particular \$7 million job?
- Why aren't any of ABC Corp.'s vendors in the Yellow Pages?
- Why are there no addresses on the work invoices?
- Where are all the local, regional, city, state, county and national government forms regarding permits,licenses,etc.?
- Where is all the paperwork on vendor deliveries?
- Could the auditors have a tour of one or two of ABC Corp.'s warehouses or other facilities?
- Can the auditors speak with a few of the company's vendors or subcontractors? If not,why not? 🚫

**Source:**

Mark Morze,former president of ZZZZ Best Co.'s fraudulent insurance restoration/construction division, which created \$300 million in fake construction projects.

He now lectures on how to prevent and detect fraud. He lives in Westlake Village, CA. Mark can be contacted through Gary Zeune, President,The Pros and the Cons, a fraud-prevention speakers bureau, www.bigfoot.com/~gzfraud. E-mail:gzfraud@bigfoot.com

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