

## The pros of preventing cons

White-collar criminals help companies avoid fraud in their midst

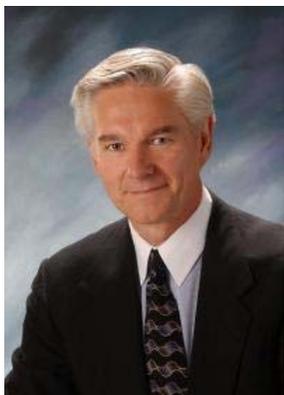
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If you want to know how to build a better hen house, do you ask the hen? No, says anti-fraud lecturer [Gary D. Zeune](#), you should ask the fox.

Zeune, founder of the Powell-based speakers' network the [The Pros & The Cons](#), takes the same approach to teaching businesses to spot and prevent fraud in their midst. When it comes to fraud prevention, Zeune believes a valuable perspective is one from a convicted white-collar criminal. That's why roughly half the experts represented by The Pros & The Cons have served time in prison for fraud.



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Even though corporate fraud has taken center stage in the nation's attention in the wake of scandals involving Enron Corp., WorldCom Inc. and others, the problem has been serious for far longer. A 2002 study by the Austin, Texas-based [Association of Certified Fraud Examiners](#) estimated fraud, theft and abuse cost the U.S. economy about \$600 billion a year.

"It's a monumental problem, and most accountants and business owners don't realize what a huge problem it is because the fraud, theft and abuse is scattered all over the financial statements," says Zeune, citing stolen inventory, cash register shortages and personal long distance phone calls as examples.

### Enabling fraud

To educate companies about fraud, The Pros & The Cons offers two- to eight-hour courses, in-house training and conference presentations on fraud

prevention across the country. Zeune says prices vary according to the speaker, travel expenses, length of the program and size of the audience, but typical fees are between \$4,450 and \$6,450.

Zeune has been teaching fraud-prevention courses with ex-convicts since 1995, when he partnered with Barry Minkow, who had served time in prison for his role in defrauding investors of \$100 million, right under the noses of auditors, underwriters and lawyers, in the ZZZZ Best Carpet Cleaning scam.

The ex-cons of The Pros & The Cons have several surprising viewpoints to share with executives, business owners and accounting professionals, Zeune says. One message is that business leaders are not only failing to prevent fraud. In many cases, they are actually encouraging employees to steal from the company.

"It's very common. ... People behave the way you pay them to behave, and most business people just don't think about the fact that how they set the reward system up is going to drive people's behavior," says Zeune.

In some of his courses, Zeune explains how compensation systems - from expense reimbursement to stock options - can drive fraud if they're not set up properly. Zeune also teaches how organizational cultures sometimes enable fraud.

"To me, ethics is doing the right thing even when nobody is looking," Zeune says. "Because you can't have w alls

or contracts or agreements to bind people ... people have to want to do the right thing, and that comes from people at the top of the corporate culture." If employees see the owner running personal expenses through the company books, for example, then those subordinates - especially any who were skipped in the last round of raises - may feel entitled to do the same.

"If they see the folks at the top treating the company like a personal piggy bank, you give them permission to do it, too," Zeune says.

### Performance targets

Another element of corporate culture that can drive fraud is pressure to keep the company profitable, says Daniel Bubalo, former chief executive of the



Dan Bubalo

now-defunct Omni International Trading and an ex-convict who plans to begin speaking with The Pros & The Cons, pending

approval from his parole officer.

"Shareholders are very demanding. They want to see the company stock go higher. Investors are not terribly patient people, it seems to me. Then you have the regulatory burden. ... There's a tremendous pressure on executives to answer to all masters," says Bubalo, who lives in Dallas.

At Omni, Bubalo authorized the sale of additional securities from new investors to make acquisitions outside what was its core business at the time,

but he did not disclose all of the required information to shareholders in a timely manner.

"I took a very extreme risk and I ended up in prison for it," he says.

As a speaker, Bubalo says he hopes to warn executives of the risks of operating outside the rules of corporate governance and the importance of good checks and balances. Bubalo says he took the actions he did at Omni under the advice of counsel.

"To look at this from the position of a president or CEO, or even a higher level manager, one's conscience needs to be really finely tuned these days," Bubalo says.

Richard Dietrich, chair of the accounting department at the Ohio State University's Fisher College of Business, says Zeune's presentation's help students with that fine-tuning.

He says that's one thing that's unique about the perspective Zeune offers when he volunteers to speak to undergradua

te accounting students - he helps them understand the finer points of business ethics. Dietrich says students often think of ethical issues in very black and white terms and believe they would never find themselves in a compromising position.

"We're trying very hard to help our students understand the subtleties of ethical lapses in a business setting," Dietrich says. "... In actual business practice, the issues are often very gray, and it may not be clear what's right and what's wrong. It's not because an accountant or manager wakes up one morning and says, 'I'm



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going to do something unethical today."

### Paying back

Other organizations can provide the insider's perspective on fraud as well.

Walt Pavlo, an ex-con in New York City, spent two years in federal prison after pleading guilty in October 2000 to wire fraud and money laundering.



Walter Pavlo

As senior manager in the collections department at MCI Telecommunications in the 1990s, he was in charge of more than \$1 billion per month in accounts receivable. When the default rate started growing at the end of 1995, he started employing "creative financing" strategies to hide that fact. He hoped it would be temporary, but the charade continued well over a year, and he eventually started using some of those same strategies to steal almost \$6 million from MCI's reseller customers for himself.

After he was released from prison in March 2003, Pavlo began letting a charitable organization profit from his past indiscretions. He became full-time director of business development for the Young Entrepreneurs Association, which provides education in business ownership, personal finance, and job training for at-risk teens. Pavlo's goal is to bring in four to five times his salary for the nonprofit, in part through speaking engagements.

The association charges \$1,500 to \$5,000 for Pavlo's presentations, which range from one hour to a full day.

Pavlo's message varies with the audience. To MBA students, he delivers a warning about the temptations and pressures they will face when they leave school. To business leaders, he emphasizes that employees will follow their example. To law enforcement agents, he explains the nuts and bolts of the fraud he committed.

NOTE: Gary Zeune inserted all pictures and web links and changed the Pros and the Cons to The Pros & The Cons. You can find the original article at <http://columbus.bizjournals.com/columbus/stories/2004/06/28/focus1.html>