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Posted 11/15/2005 11:03 PM Updated 11/16/2005 3:08 AM

Ethics training as taught by ex-cons: Crime doesn't pay

By Greg Farrell and Jayne O'Donnell, USA TODAY

PHILADELPHIA — It's a brilliant autumn morning at Temple University, and most students across this bustling campus are beginning their day by filing into lecture halls and tuning in to professors of science, mathematics, history, music and literature.



Walt Pavlo pleaded guilty to stealing \$6 million when he orchestrated fraud while working at MCI.

By Tom M. Nutter for USA TODAY

But here in Beury Hall, business students won't hear any preaching from academic texts. Instead, they'll hear Walter Pavlo talk about his brief career as a corporate criminal and how it landed him in jail.

Pavlo describes an elaborate plan he hatched with a friend that netted him \$6 million in cash from MCI customers in less than a year. He then tells how the crime almost led him to a nervous breakdown.

"If you have read John Grisham novels, you know that the criminals are cold and calculating," he tells the students. "I was calculating, but I wasn't cold. I was scared. I thought to myself, 'How do I get out of this?' I was constantly looking over my shoulder."

Trim with sandy hair, a slight Southern accent and a polite demeanor, Pavlo, 43, is at the forefront of an industry that has been growing ever since the corporate scandals at Enron, WorldCom and Adelphia emerged in 2002. Thanks to those spectacular accounting frauds, the business ethics industry is booming, and any auditing firm, law firm or consultant that specializes in the topic is looking forward to year after year of aggressive growth.

U.S. companies will spend \$6.1 billion this year to comply with Sarbanes-Oxley requirements, AMR Research says. Spending on ethics programs is also on the upswing.

"There are two big driving forces behind the growth of the ethics industry," says Michael Connor, publisher of *Business Ethics* magazine. "Sarbanes-Oxley and the U.S. sentencing guidelines. The debate has shifted from whether to be ethical to how

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to be ethical. Five years ago, the debate was theoretical. Now, corporate governance is an important part of the analysis on Wall Street."

Sarbanes-Oxley, the law passed by Congress in 2002 after the meltdowns at Enron and WorldCom, called for tighter internal financial controls at public companies. The law also led to revised sentencing guidelines for corporations and individuals involved in fraud. One year ago, the U.S. Sentencing Commission ruled that among the factors to be taken into consideration when a corporation was accused of wrongdoing was whether management had provided ethics training to its employees. If not, it could be held against a company whose employees had been found guilty of fraudulent behavior.

"We have seen an explosion of growth in professional service providers who help support ethical compliance programs," says Keith Darcy, executive director of the Ethics Officer Association. Darcy points out that his organization — consisting of executives in charge of corporate ethics and compliance programs — had 600 members in 2001. This year, his group's membership has exceeded 1,200.

Sanjay Anand, chairman of the Sarbanes-Oxley Institute, which trains accountants and other executives on how to comply with the new law, agrees that ethics has become big business. "We are going through what is referred to as an ethics boom," he says. "Sarbanes-Oxley has raised the bar on the pain that senior executives can suffer as a result of non-compliance with code of ethics. The fear of the expense of training is starting to fade. Companies are realizing ... it costs less to prevent than to cure."

Gary Zeune, who runs a speakers bureau of former white-collar criminals, says that since the law passed, people have "finally started to understand that good ethics is good business because customers will trust you."

There's no teacher like experience

The focus on ethics has spawned a miniature boom in demand for corporate felons who have done their time. Mark Morze, the former CFO of ZZZZ Best carpet cleaning, served almost five years in prison for his role in one of the biggest frauds of the 1980s. Today, he's a popular public speaker on the subject of ethics. "The interest now is very, very piqued," he says. "A lot of it is piqued by the fear people are having of exposure."

Morze, who pleaded guilty to defrauding investors and banks out of about \$100 million, says he would often make \$1 million a week during the fraud. He says he now speaks up to 60 times a year to groups ranging from students to FBI agents or accountants, and charges as little as \$500 or as much as \$10,000 for a keynote speech.

"I've started telling people that (in the 1980s) when you did something wrong, you'd face civil action by the SEC," says Morze. "Now we've seen almost a complete flip-flop, and you might have to pay hundreds of millions in fines. Selfishly, it's good because it gets me more work."

Frank Abagnale, whose early criminal career as a forger and impersonator was celebrated in the movie *Catch Me If You Can*, had a successful speaking career before the recent wave of accounting frauds. Now, he says, he has to turn business down: "Before fraud got a lot of attention, I used to give 35 talks a year. Now, it's over 100 lectures a year, sometimes four a week."

While Pavlo and Morze talk about the crimes they committed, and the circumstances that tempted them into breaking the law, Abagnale also shares his thoughts on the root causes of fraud in the USA.

"We are living in a society that has an extreme lack of ethics," he says. "We are not

teaching ethics at home or in school. You can't find ethics in college. That's just amazing to me."

Exacerbating the situation, he says, is the view among most businesses that fraud and thievery are part of "the cost of doing business." Credit card companies, retailers and others all make budget provisions for fraud. "If you just sit back and say it's related to cost, if you're not doing anything about it, you're helping it," Abagnale says.

If there's any lesson to be learned from the accounting frauds of recent years, it's that at Enron and WorldCom, there were only a few masterminds. Nevertheless, a much larger group of people adopted a "go-along/get-along" philosophy, and before they realized what happened, they were sucked into the vortex of a criminal conspiracy.

Oliver Halle, a former FBI agent who now makes presentations on white-collar crime to businesses and schools, says he couldn't understand how people who seemed to have every advantage in life would make bad decisions in the workplace that often ended up putting them in jail. To make an impression on his audience, he usually brings two white-collar criminals who served time in prison. "I was dealing with people that look like you, me and the neighbors," he says, referring to the real-life examples of corporate convicts. "They were getting into trouble. Why are these educated, upper-middle-class people getting into trouble? What's going wrong here?"

Temple Professor Terry Halbert wanted to expose undergraduates to some of the pressures facing corporate executives. She recruited Pavlo to speak because she wants students to understand how easy it can be to make a mistake that results in prison time. "The last thing we wanted was finger-wagging, or someone saying, 'You better be good people,' " she says. "Most people are good, and then they enter an arena with incredibly high pressure. Many people aren't prepared for what follows. I want to bring it to life."

Crossing the line

And at that class early that autumn day, it was Pavlo bringing it to life for Halbert's students. He recalled the excitement he felt in 1992 when, as a newly minted MBA, he landed a job with telecommunications company MCI. He then talked about the difficulties he had collecting money owed to MCI from a series of fly-by-night companies.

In the mid-1990s, he says, he tried to get MCI to take a \$180 million charge to wipe out the bad debt generated by deadbeat customers. But, he says, his bosses told him the maximum that could be written down was \$15 million a year and that his bonus hinged on him making the economics work.

In a moment of weakness, Pavlo says, he approached a friend, Harold Mann. Pavlo says he told Mann that he couldn't take the pressure anymore and was sick of squeezing money out of clients, trying to paper over MCI's debts to protect his bonus.

Then, according to Pavlo, Mann shared with him the key to success: " 'Walt,' " he says, " 'You seem to be the only one in this whole formula who doesn't get it. Everybody cheats. That's how business is done. You've got to cheat to get ahead.' "

Pavlo says he and Mann conned some of MCI's high-risk customers into believing that an angel investor would retire their debts to MCI in return for regular payments to a Cayman Islands account. While MCI never got any payment for outstanding debt, Pavlo got his share of the Cayman Island funds and suddenly was living large, flying by private jet to the Caymans where he had stashed \$6 million in illicit earnings.

The criminal activity came at a cost. "I was terrified," he says. Within eight months, Pavlo was near a nervous breakdown. "I was no longer able to function physically,

mentally. I was shaking, couldn't sleep, drinking excessively, taking various sorts of pills to help me relax."

Pavlo's crime unraveled when his boss discovered discrepancies between what some of MCI's customers said they owed and what the company thought they owed. Pavlo quit his job, hoping that the investigation would blow over. It didn't. Faced with overwhelming evidence, he pleaded guilty, served two years in prison and is on probation. Mann got a 4½-year sentence.

Unlike many white-collar criminals, Pavlo says he accepts responsibility for his actions. But the consequences are harsh. No company will ever hire him as a full-time employee. He says he interviewed at a number of places after getting out of prison. "I had two interviews with major accounting firms. I would explain the gap in my résumé. They said, 'You can't work here, but we'd like for you to train our people.' "

And so Pavlo's public speaking career began. This year, he expects to earn about \$100,000. Based on the speaking engagements he's lined up for 2006, his take next year should double that sum.

Pavlo still has to pay reparations for his crime, to the tune of \$6 million. While he was in jail, his wife divorced him, and now more than 70% of his income goes to taxes, child support, restitution and basic necessities. Because he was forced to declare bankruptcy, he can't even get a credit card.

"I had more money and less liabilities when I got out of college," he says of life after prison. But the most difficult part of readjusting to life on the outside is reconnecting with his kids, who are 13 and 15. "Even when they're 30 years old, I'm going to be telling them a version of this story. That's part of the punishment."

Farrell reported from Philadelphia and New York; O'Donnell reported from McLean, Va.

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