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An Interview with Harry Markopolos, CFE, CFA

CHASING MADOFF

Harry Markopolos, CFE, CFA, couldn’t have known that his first fraud examination would last nine years and uncover the largest-ever Ponzi scheme.

By Dick Carozza • Photos by Jodi Hilton
Finally, after nine years, they listened to Harry Markopolos.

“What hits us the most is that you didn’t give up on these efforts,” said Rep. Ed Royce, R-Calif., during Harry Markopolos’ Feb. 4 Congressional testimony about his investigation of Bernard Madoff’s Ponzi scheme. “You tried repeatedly, and you tried to encourage others to look into this in order to protect investors, and not only here but around the world. And for that we want to express our appreciation.”

Markopolos’ quest began as a simple work assignment; he was a portfolio manager for an equity derivatives asset management firm in Boston when he was asked to analyze Madoff’s money-making methods. He quickly discovered that Madoff was running an old-fashioned Ponzi scheme.

“My team and I tried our best to get the Securities and Exchange Commission [SEC] to investigate and shut down the Madoff Ponzi scheme with repeated and credible warnings,” Markopolos said during his testimony before the Financial Services Subcommittee on Capital Markets. He said he submitted an eight-page document listing red flags and mathematical proof of a major fraud to the SEC’s Boston Regional Office in May 2000.

He resubmitted evidence to SEC offices in 2001, 2005, 2007, and 2008, but to no avail. In 2008, the stock market crumbled, investors rushed in to redeem their investments, and Madoff ran out of cash and turned himself in. After pleading guilty on March 12, he awaits sentencing for a scheme with losses estimated from $10 billion to $65 billion.

Meanwhile, Markopolos is trying to settle his life after the media onslaught and use his fraud examination skills to work on False Claims Act and IRS tax-fraud cases in which the U.S. government is the victim.

“I didn’t have any fraud examination training [before the Madoff investigation] so I look to the ACFE as my single-most useful professional education provider,” he said.

Markopolos will be a keynote speaker at the 20th Annual ACFE Fraud Conference & Exhibition, July 12-17, at the Bellagio, in Las Vegas.
What events led you to investigate Madoff’s business?
In late 1999, I was a portfolio manager for a multibillion-dollar equity derivatives asset management firm in Boston’s financial district. Frank Casey, a marketing senior vice president for the firm, returned from New York with marketing materials for a high-performing, derivatives-based hedge fund managed by Bernard Madoff. In early 2000, the firm’s partners asked me to reverse-engineer the strategy so that we could offer this successful product to our firm’s customers.

After I modeled the strategy, I determined that the returns could only be coming from illegal front-running of the Madoff broker/dealer arm’s client orders or from fictional returns that were the result of a Ponzi scheme. I went to the firm’s partners and jokingly asked if they really wanted to get into that business. They hastily replied, “No way, if that’s what he’s doing then we don’t want to compete in that space.”

What tipped you off?
Madoff’s name was never on the marketing materials; that was clue No. 1 – I’ve never seen a product offering where the manager’s name wasn’t listed up front. The marketing literature described a derivatives-based strategy with 37 moving parts, but I was very familiar with the math, and the strategy as described shouldn’t have been able to earn a positive return after fees. He made some very simple portfolio construction errors in that he foolishly retained single-stock price risk that would have led to a lot more down months than he reported to investors. If he had designed the product correctly, he could have avoided this single-stock risk, so I knew that Madoff didn’t know the first thing about portfolio construction mathematics. Literally, it took five minutes after reading his strategy paragraph to determine that he wasn’t really using the described strategy to earn the returns he said he was. Under existing securities law, if you tell clients that you are using Strategy A to invest their money but, in fact, you use an undisclosed Strategy B to really invest their money, you’ve committed fraud.

What were the factors that allowed this scheme to continue for so long?
I couldn’t possibly cover them all in such a short interview, so I will hit the main factors. The important thing you have to know about Madoff is that he is a brilliant con artist who knew how to prey on human nature like few others.

The main emotion he appealed to was human greed, but he was smart enough to address investors’ fears by showing them a strategy that owned stock market index put options [option contracts that give the owners the right, but not the obligation, to sell specified amounts of underlying securities at a specified price within a specified time] such that if the stock market ever crashed they would be protected. He created the illusion of an investment strategy that never hit home runs but instead earned a steady 1 percent a month and also couldn’t lose much money because he owned protective stock market put options. If such a product had really existed it would be the Holy Grail of investment products. But Madoff was smart enough to show modest returns that didn’t seem overly high so as to avoid suspicion.

In finance there is a term, the Sharpe Ratio, which is a measure of how many units of return you earn for each unit of risk you take. Madoff’s Sharpe Ratio was off the charts over a decade-and-a-half time period, ranging between 2.5 to 4.0 for most time frames. Sharpe Ratios this high have existed for shorter time periods but never for 15 years in a row – no one is that good! But investors wanted to believe in the Holy Grail so they suspended their disbelief and acted like moths before a flame.

Madoff also used the veil of exclusivity to overcome victims’ hesitancy to invest. He would simply lie and tell feeder funds [funds that conduct virtually all of the transactions through other funds called master funds], fund of funds [hedge funds that invest in a diversified basket of other hedge funds], and rich individual investors that he really existed it would be the Holy Grail of investment products. He would say, “but because I like you I’ll give you special access and allow you, and only you, to invest.” Then he would give them a flattering reason why he considered them to be special, and they’d fall for it hook, line and sinker.

Madoff also owned a prestigious broker/dealer firm, Madoff Securities, which was a major market-maker in over-the-counter and NYSE-listed stocks. At various times Madoff was trading 5 percent to 10 percent of the daily exchange volume. Therefore, he had the patina of respectability. After all, if he owned a successful brokerage firm, why would he need to steal?

And just like any other large-company CEO fraudster, Madoff’s résumé was impeccable. He was former chairman of

Markopolos Gives Advice to Aspiring Fraud Examiners

1. Join your local ACFE chapter and attend meetings regularly. Collect fellow members’ business cards, and ask about their expertise. Then when you run into what seems like an unsolvable problem, use your Rolodex to reach out and ask for advice.
2. Build a world-class fraud library, one book at a time. The ACFE bookstore and Amazon.com carry a large number of anti-fraud titles that you should be reading as part of your continuing education program.
3. Develop an expertise in a fraud examination specialty to make yourself more valuable. Pick a specialty that’s your passion, and master it.
4. Find a mentor who can guide you in making career decisions and teach you the finer points of fraud examination.
5. Follow the one-third rule: for every hour you spend working, spend a third of that time engaged in continuing educational activities or social networking.
the NASDAQ and sat on several prominent industry association boards as did his brother and his sons. He gave to charities and donated to politicians. Investors were blinded by the résumé, his perceived wealth, and his lofty status in the community and therefore didn’t feel the need to dig beneath the surface when conducting due diligence. Plus they knew that if you asked too many questions and angered him that he’d tell you that he didn’t want you as a client. Psychologically, he had designed the perfect fly trap.

You said that Frank Casey, then the senior vice president of marketing for Rampart Investment Management Company Inc., the Boston firm at which you worked at the time, told you that investors he met in New York City considered Madoff the premier hedge fund manager because of his steady return streams with unusually low volatility. Why didn’t they realize, as you did, that this was just an old-fashioned Ponzi scheme? Investors who asked too many questions were told not to invest. If you asked detailed due diligence questions and wanted full transparency and an independent third-party bank to custody assets and clear trades, then Madoff would tell you, “It’s a take-it or leave-it black-box strategy. I invented this strategy and if I let third parties see what I’m doing, then they will duplicate the strategy and kill my returns by competing away the market inefficiencies I’m exploiting.”

Smart investors would stick to their investment discipline and walk away, refusing to invest in a black-box strategy they did not understand. Greedy investors would fall over themselves to hand Madoff money. He was brilliant in letting smart investors walk away and not being offended by it. He knew his targets were investors who didn’t ask too many questions. You don’t need to be the smartest man in the world to be a Ponzi artist; you only have to be smarter than your victims.

You’ve said that Madoff marketed his stocks by saying he would invest them through a complex “split-strike conversion” strategy. Why do you think he used this marketing plan with his customers?

First, it had a basket of 30 to 35 blue-chip stocks that any investor would feel comfortable owning. Second, it appeared to be a diversified basket of stocks so that at least some investors would willingly allocate 100 percent of their savings to him. Third, there were stock market index put options that would protect investors against a severe market decline such as that experienced in 2008, so it seemed like a very safe, diversified strategy – just the type to lure in victims and keep them sleeping soundly at night. Fourth, Madoff knew the SEC didn’t have any derivatives experts on staff that would understand the math behind the strategy. Fifth, the strategy had so many moving parts that none of the feeder funds understood the strategy either. The complexity of the strategy worked to perpetuate the fraud.
How could the managers of the feeder funds miss that 45-degree upward angle in the graph of the cumulative performance of Madoff? Do you think they willingly ignored the warning signs because the money kept flowing in?

Madoff masqueraded as a hedge-fund operator but was licensed as a broker-dealer. By the same token, the feeder funds masqueraded as hedge-fund operators, but were nothing more than marketing arms for Madoff. In a normal Wall Street fee-splitting arrangement, the marketing arm would typically take 20 percent of the fees and only very rarely more than 50 percent. But in Madoff’s case, I believe he was passing along well over 80 percent of the fees to the feeder funds. Therefore, they had a monetary incentive not to ask too many questions.

I’ve met some investors who felt Madoff was front-running his broker-dealer arm’s order flow. These investors were actually reassured that Madoff’s returns were real but were generated illegally. My guess is they figured if Madoff were eventually caught he’d go to prison but that they would be able to keep all the illegally generated returns.

Can you describe your meeting in 2002 with the 14 French and Swiss private-client banks and hedge fund of funds?

I had designed a statistical options arbitrage strategy that could earn better returns than Madoff, but which could lose almost 50 percent in any given month if the market fell more than 8 percent over a 10- to 15-day time span. The firm that was marketing this strategy for my firm also marketed Madoff’s strategy and would tell everyone we met that “Harry is just like Madoff only with higher risk and higher return.” Of course I would get very frustrated every time this was said, but I knew that if I told the European fund of funds that Madoff was a fraud, then word would get back to him and I would be putting my life in jeopardy.

Of the 14 feeder funds and private-client banks that had Madoff, only two have come forward and admitted their losses. As of February 2009, there were a “dirty dozen” who hadn’t yet come forward. Keep in mind that this is almost seven years later, so some may have discovered Madoff was a fraud and gotten out. But I think most of the “dirty dozen” are hiding and for good reason.

I used that European trip to further the investigation and detail Madoff’s inroads into the European marketplace. What I discovered was that Madoff was running affinity circles luring in many of Europe’s royal families – the high-born, old money families, and the newly rich. Madof used noblemen in Europe to market to and to lure in wealthy victims.

In the United States, Madoff was preying on the Jewish community. Interestingly, Madoff knew that his affinity circle consisted of American Jews, but that by recruiting feeder funds with different customer bases, he could expand the number of affinity circles he could tap into for new victims.

Surprisingly, my team and I never realized that Madoff was accepting separately managed accounts from American Jewish investors. We incorrectly thought that by tracking the institutional feeder funds and fund of funds investing in Madoff, we were tracking all his victims, so we missed this particular category of victims entirely.

Unfortunately, it was this group of individual Jewish investors that was likely hit the hardest, with many of these families experiencing devastating losses because they invested everything they had with Madoff. In retrospect, this was obvious, yet we missed it during our investigation.

Most of the European money was invested through “off-shore” accounts so it is doubtful that these European victims will be coming forward and filing loss claims for fear of alerting their host nation tax authorities. So while I believe that the Madoff losses are higher in Europe than in the United States, most of those European losses will never be reported to prove my hypothesis.

After the Boston SEC office sent the Madoff case to the SEC’s New York branch, you said the New York office was unresponsive. You said in your testimony before the Congressional subcommittee that “the relationship between the SEC’s Boston and New York offices is about as warm and cordial as the Yankees-Red Sox rivalry.” Did you ask the Boston office to contact the New York office again to inquire about the inaction? Did the SEC’s New York office give you its reasons for not being able to find the fraud?

No, I never asked the Boston office to contact New York. Since the two offices didn’t like each other, having Boston challenge New York’s competence by asking for status reports would only have hurt matters instead of making them better.

You approached the senior investigative reporter for The Wall Street Journal. Even though he was eager to investigate the story, you said the newspaper’s editors never gave their approval. Did you ever discover the reason for this?

No, but I will say that I went to John Wilkie, whom I personally consider to be The Wall Street Journal’s best investigative journalist. This reporter has broken many stories. My nickname for him is “front-page Wilkie” for all the scoops he lands on the journal’s front page every year. He and I keep in touch, and he’s definitely someone I will go to with other cases in the future.

In 2006, the SEC did interview Madoff, his assistant, an official from one of the company’s feeder funds, and another employee. Would you have some idea of the results of that investigation?

I cannot possibly answer on behalf of the SEC. The SEC inspector general’s report will be out this summer and will answer these questions. One thing I can tell you is that I’ve spent an entire day giving sworn testimony to the SEC’s inspector general team and they impressed me. I was interview No. 60 for them. Their questions were wide-ranging and revealed to me how extensive their investigation is. They know they are writing a widely anticipated IG report that will end up in the history books. This particular IG has written hard-hitting reports in the past that have pulled

HARRY MARKOPOLOS continued on page 57
no punches, and I am expecting to see his team’s best work in the upcoming Madoff Report.

**When did you first see that Madoff was struggling to keep his Ponzi scheme afloat?**

A member of my investigative team, Frank Casey, had a key dinner in June 2005 where he found out from his sources that Madoff was actively trying to borrow money from several European banks. That was our first indication that the scheme was running short of cash.

**How did you find out that Madoff was running low on funds in 2007?**

In April 2007, a San Francisco-based firm came out with a structured product that had 3:1 leverage to Fairfield Sentry Fund’s Madoff returns. For every $1 an investor put in, a European bank would lend you $2 so that $3 was invested with Madoff instead of only $1. Of course, the bank would make a nice interest rate for itself and the San Francisco-based firm would earn three times as much in management fees as would Fairfield Sentry. It was win-win-win for the feeder funds, the banks, and Madoff. To us, this was a sign of desperation that Madoff needed larger and larger amounts of fresh cash to keep the scheme from collapsing.

**When and why did you eventually abandon your investigation?**

The top three offices at the SEC are in New York, Boston, and Washington. If the three best SEC offices weren’t bright enough to figure out such an easy scheme then it was clear to me that the case had no future. By April 2008, I had several False Claims Act cases under seal that were progressing nicely and felt that the Madoff case wasn’t going anywhere. Therefore, I decided to concentrate on my winners and cut loose my loser, the Madoff case, which just goes to prove that it is impossible to predict how your cases will turn out! Madoff was in my dead-case-files cabinet, but it arose from the dead like a phoenix.

**Why do you think Madoff suddenly turned himself in on Dec. 11, 2008?**

The dramatic fall in the worldwide financial markets of October and November 2008 led to panic, resulting in massive investor redemptions from hedge fund of funds. These fund of funds operators felt that Madoff was their best-performing, most-liquid hedge fund manager so they redeemed him first, which led to him not being able to meet all of those redemption requests.

Madoff had taken money from every corner of the globe and he had taken it from some very unsavory characters. That’s why he didn’t flee; he had nowhere to run and nowhere to hide; so he did the logical thing – he turned himself in.

**Of the 29 red flags you identified, which ones were the strongest indicators that a fraud was being perpetrated? Which ones should have made the SEC sit up and take notice?**

All of them. But if I had to pick the most important red flag it would be that Madoff’s purported options trading size was seven to 65 times the size of the actual market for those derivative instruments at various points in time.

**Your investigative team consisted of Neil Chelo, director of research for Benchmark Plus; Frank Casey, formerly of Rampart Inc., the North American president for Fortune Asset Management; and Michael Ocrant, now of the publication, Institutional Investor. Were they working pro bono?**

Yes, they knew Madoff was a clear and present danger to the capital markets and to the reputation of the United States. Some things are so important that you just know you have to do them for free and certainly this was one of them.

I’d also like to point out that the two lawyers who helped me prepare for the Congressional testimony, attorney Phil Michael of Troutman Sanders LLP in New York, and Dr. Gaytri Kachroo, JD, LLM, SJD, of McCarter & English LLP in Boston, also worked pro bono in representing me. Thank goodness civic duty and doing the right thing are still prevalent in our nation.

**How did your Army Reserve special operations background help you in the investigation?**

I was used to leading small, task-oriented teams of functional experts. And I certainly knew how to develop intelligence sources, debrief them, and give them specific and general requests for additional information while letting them figure out how to acquire the information.

When I was in the Army Reserve, the Army’s JFK School for Special Warfare hired cross-cultural anthropologists to train us how to communicate across cultural boundaries; this training has always helped me during my investigations. Mirror-imaging the people I am with so that I can find common ground more easily with them, and exchanging information with them more effectively, has been invaluable to me. My unit used to operate in Western Europe so I knew their cultures intimately and was able to make some investigative breakthroughs there rather quickly in 2002.

With me it’s always been a two-way street information-wise. I don’t come across as “an investigator.” The Army trained me to be “a friend who’s there to help.” As a result, I find large fraud cases in companies in which government regulators have not helped the subjects during their routine inspections. Government investigators all too often are in the “listen-only mode,” which is why they don’t hear much useful information. You have to reveal information in order to receive it. No one trusts the person who’s only there to listen.

**What fueled your tenacity during your nine-year investigation of Madoff?**

There’s a fine line between bravery and foolishness. My team and I definitely crossed that line and were, to some extent, foolish to continue the investigation after it became apparent in 2002 that the SEC was incapable of understanding a derivatives-based Ponzi scheme.
However, because of the immense size of the fraud and the untold damage we felt it would do to the reputation of the United States and our capital markets, we knew that if we did not continue the investigation Madoff would continue to lure in more victims and cause even more damage.

You’ve said that all the members of your team feared for their lives during your investigation. Did you have any specific threats that made you fear for yours?
The “off-shore” feeder funds were only one step removed from organized crime. If organized crime knew that Madoff was stealing their money, he would have been killed. Therefore, if Madoff had ever found out that he had a team tracking him through Europe and North America and that he risked getting exposed, it was a good bet that he would have had several billion reasons to want us silenced. To compartmentalize the damage, I was the only one who went to the SEC. The SEC never knew I had a team in the field helping me.

New SEC Chairwoman Mary L. Schapiro has said she will streamline some procedures, and she will eliminate the requirement that commissioners approve all enforcement actions before they’re elevated from an inquiry to an investigation and before subpoenas go out, according to The New York Times. In a Times interview she said, “This agency did not pursue some critical issues and problems. We need to be transparent about what we missed. We need to learn from these tragedies.” What else does she need to do now and in the long term to improve the SEC?
I have written numerous pages containing more than three-dozen recommendations and included them in my written Congressional testimony. I have heard through the grapevine and through press reports that the SEC is actively exploring at least a few of my recommendations and they’ve done it with such speed that I’m hopeful we will see dramatic improvements. If the SEC does not improve soon, they risk being merged out of existence in the upcoming rewrite of the nation’s regulatory scheme.

The SEC’s ineptitude and that of the Federal Reserve have brought the nation to the brink of financial collapse, so I am confident that drastic changes will be made in order to restore investor trust in our capital markets. I would rate the Federal Reserve’s performance as far worse than that of the SEC. None of the nation’s financial regulators did their jobs, which is what allowed this crisis to develop over a period of at least 15 years.

What talents and skills should the perfect SEC investigator have?
First they must understand finance, balance sheets, and financial instruments at least to the level that a Chartered Financial Analyst Level I candidate does. Second, they need to possess a nose for fraud and have a toolbox for investigating fraud, which is why I recommended that the SEC hire Certified Fraud Examiners. Third, having a trading background would be essential for the perfect SEC investigator. Fourth, having a CPA’s knowledge of financial statement preparation along with Fortune 1000 experi-
ence would be a must. Of course, the perfect SEC investigator has yet to be born. No fraud investigator is perfect.

**You’ve said the SEC needs to offer incentives to its investigative staff members. Could you explain your reasoning and how that might work?**

Wall Street pays employees a base salary of roughly $150,000 to $200,000 per year plus a bonus often tied to 5 percent to 15 percent of the revenues that you bring into the firm during the year. The SEC needs to adopt Wall Street’s compensation methods in order to compete with industry for the best available talent. SEC staffers that tackle and solve major securities fraud cases that result in successful settlements for investors should be awarded substantial bonuses for their excellent work, just like they would be in industry. I recommend that for each dollar in actual fraud damages the guilty defendant be fined treble damages along with the cost of the government’s investigation. This will ensure that the defrauded investors are made whole and it will ensure that these large SEC bonus checks are paid by the crooked companies that stole the money in the first place.

**During your testimony, you recommended the establishment of an Office of the Whistle-blower within the SEC. What should the office look like?**

First, it needs a technological filter to winnow through the hundreds of thousands of e-mail complaints received each year to sort through the ones that are specific, credible, and worth following up by a trained investigator. Second, trained investigators who have excellent phone-interviewing skills need to conduct follow-up calls on the most promising leads. Third, these trained investigators have to be able to gain whistle-blowers’ trust and develop additional information. Fourth, the whistle-blower program needs to provide a bounty for cases submitted under seal to the SEC that result in a successful recovery by the agency. The Department of Justice and the Internal Revenue Service both pay rewards of 15 to 30 percent of the revenues that you bring into the firm during the year. Fifth, a case-tracking system needs to be adopted that tracks cases from start to finish. Sixth, the SEC needs to data mine the complaints for useful data that raises red flags for further analysis about future fraud trends.

**You’ve met with SEC Inspector General David Kotz about some “mini-Madoffs.” I know you can’t be specific about these cases, but do they involve Ponzi schemes at other investment firms? Were you able to share your concerns about the SEC and suggestions for improvement?**

I told the SEC there was one possible mini-Madoff that merited close examination. There is an investment company reporting performance numbers that were even better than Madoff’s. I didn’t investigate beyond looking at the performance numbers, so it’s best that the SEC send a team in to verify that the returns are real.

**Looking back through the nine years, would you have done anything differently in communicating your investigation results to the SEC, financial professionals, and others?**

Madoff was my first case, which, of course, is the absolute worst case to start one’s career as a fraud examiner with! Back then I didn’t know what the SEC’s organization chart looked like, I didn’t know how they functioned, nor did I know how poorly trained, paid, and resourced they are. I didn’t know what I didn’t know, which actually helped in some ways and hurt in others.

Interested CFEs can look at my SEC submissions and case materials posted on www.house.gov under the archived hearings of the House Financial Services Committee dated Feb. 4, 2009, and judge for themselves what I should have done differently. Were my case submissions clearly written? Did I include enough proof? Were my red flags sufficient? Should the SEC have shut Madoff down based upon those submissions? What did we fail to investigate? What obvious things did we miss?

Things would have gone a lot better if I had joined the ACFE in 1999, networked at local chapter meetings, and obtained advice from seasoned CFEs. If I had done those things then the case would have had better odds of being successful.

In the Army, I was taught that leaders are responsible for everything that happens and fails to happen in their units. Obviously, this is the biggest case failure in history, and I bear responsibility for not leading this case to a successful conclusion. I’ll leave it to the historians and my fellow CFEs to judge where I could have done better. I feel as badly about the result as anyone other than the victims.

**What do you consider to be the best way to take down a securities Ponzi scheme?**

Since a Ponzi scheme never really provides any underlying product or service, these types of frauds shouldn’t take more than a few hours to solve in most instances. You simply walk into the suspected Ponzi operator’s headquarters unannounced and ask to be taken to the trading desk, which won’t exist. If the fraudsters are fast on their feet they’ll tell you their trading desk is located at a different, far more remote location to slow you down by a day or two until you can get teams to that location. If there’s no trading desk at the firm’s headquarters and the firm doesn’t list any other offices in its marketing literature, then you can be pretty sure it’s a Ponzi.

Next you ask for the trading tickets showing those securities they traded at which prices at which time – again, they probably won’t have those either. If they do have trading tickets, all you have to do is call the brokerage firms they purportedly traded through and ask if the trades are real – which they won’t be. Or you can simply look at a “time & sales tick data feed” and attempt to locate these trades. Because they won’t exist, that won’t be too hard. I’d want to load the time & sales tick data onto a laptop so that I could check the suspected Ponzi operator’s trades on site and in front of them while a partner observed their reactions to my doing this.

My guess is that for 90 percent of the Ponzi schemes out there, simply asking the principal to take you to his trading desk will...
quickly lead to the confessional interview. That the SEC takes years to solve Ponzi schemes is proof that they need to hire examiners with industry experience.

You collected all your investigatory information from public domain documents. What do you venture to guess that investigators might now find in hidden Madoff company documents?

Only the internal company documents will reveal who his helpers were. Seeing the accomplices behind bars is one small measure of justice that I am looking forward to. My fear is that Madoff turned himself in at a time and place of his own choosing so he certainly had plenty of time to destroy the records necessary to implicate his accomplices.

Did you have a press plan?

On day 1, Dec. 12 – one day after Madoff turned himself in – The Wall Street Journal went to press with my name as the whistle-blower. On day 2, I developed a workable press plan that I never had to change – merely execute. I simply picked best-of-breed media outlets to work with and ignored the hundreds of press requests that were pouring in. For TV, I chose 60 Minutes as the best of the best. They probably approached me on day 4 or 5, so I had to be patient and wait for them, but I figured if all their competitors were calling, then they would too. For radio, I chose National Public Radio’s Boston affiliate because I knew the news director’s wife. For print media, I had been working with The Wall Street Journal for three years already. The only two media outlets I did not choose on day 2 were the Boston Globe and the Boston Examiner – they were added later.

I spent the first six days working with Greg Zuckerman of The Wall Street Journal to get the defining front-page cover story on the case published on day 7. Reporters and television cameras would show up at my front door and at times my home was staked out, but I tried to not let the media pressure get to me.

The press will pounce on you immediately, but you can’t possibly do 500 interviews in a week nor should you try. I did one story that first week but made it a good one in a national publication with millions of readers and had it include some key case documents on its Web site for the world to read and use to form their own opinions.

Letting the public form their own opinions based upon the documents you provide to the press will make your case for you, so there’s no need to sit for multiple press interviews. Besides, the press will all copy from the few in-depth press interviews you give. It’s better to do very few interviews of exceptionally high-quality and let the hundreds of other media outlets copy from that handful of interviews that you sit for.

What can you say to encourage fraud examiners as they doggedly pursue tough cases?

I think I over-pursued this case and took way too many risks. Once I had children, I should have stopped the investigation because I put my family at risk. Realistically, in hindsight, Madoff was too dangerous an individual and too powerful a target for me. So my advice is “know when to quit.” But this was my first case and I didn’t know any better.

Do you believe that CFEs should have a working knowledge of the trading profession? If so, what are some of the basics they need to know to intelligently discern investing frauds?

No, unless a CFE is working at a trading firm I don’t see any reason to spend the years it would take to obtain a working knowledge of the trading profession. It’s far easier to hire people with trading and back-office expertise to assist you in securities fraud cases rather than wasting too much time trying to master this complex field.

You’ve been a securities expert for years. Joseph T. Wells, CFE, CPA, began the ACFE in 1988 to help train fraud examiners to prevent, deter, and detect fraud. How have the seminars and conferences helped you in your investigations?

I didn’t have any fraud examination training so I look to the ACFE as my single-most useful professional education provider. I attend as many monthly Boston ACFE Chapter training events as I can. Last year, I attended the ACFE Annual Fraud Conference and Exhibition – the main, pre- and post-conferences – to acquire as much knowledge as inexpensively as I could.

Plus, I would attend all the conference social events; [they are] great times to network and further educate yourself. If a single post-graduate university course is $4,000, then a week attending the ACFE Annual Fraud Conference or a two-day conference is a lot less expensive, and it’s more focused toward what I do for a living.

I’d also say that spending a few hours in the exhibition hall during the ACFE Annual Fraud Conference is a phenomenal learning experience. At last year’s conference, I spent hours with all of the digital forensics vendors. They showed me how to operate their equipment, how to break passwords using rainbow tables, how to mirror image a hard drive and maintain chain of custody, how to spoof on Blackberries and laptops that foolishly had un-encrypted Wi-Fi and blue-tooth connections, etc. I didn’t learn enough to actually operate the equipment myself, but I learned quite a bit about what’s available and made several vendor connections that will come in handy during my career.

You now run an independent fraud investigation firm. What kinds of cases do you work on? How do you receive whistle-blower tips?

I only work on False Claims Act and IRS tax-fraud cases in which the victim is the government. My minimum case size is $500 million and I don’t take cases from the outside; I find my own. Whistle-blowers don’t find me; I find them. I automatically reject cases that try to find me and rarely respond to e-mails or phone calls from people I don’t already know.

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