

Certified Fraud Examiners: Going Above and Beyond to Uncover the Truth

By Bob Hersh

Is it just a coincidence that the original and loudest critic of Bernie Madoff's world record Ponzi scheme is a Certified Fraud Examiner (CFE)? We think not. After all, CFE's don't even take "Yes" for an answer. They one-up Ronald Reagan's slogan of "Trust, But Verify" and live by the credo "Don't Trust, Verify the Heck Out of It." What distinguishes Harry Markopolos' DNA from a regular auditor's DNA? Here are five key characteristics that shed light on Markopolos' CFE-trained mindset.

1. **Don't Give Anybody a Free Pass:** While Madoff's impeccable reputation as a former Chairman of the Board of NASDAQ and his family connection inside the SEC charmed potential investors, these facts elevated the suspicions of and intensified the challenge for Markopolos. He relished the chance to buck the status quo.
2. **Develop Rock Solid Analysis -** Markopolos mathematically proved that Madoff's alleged investment strategy called "split-strike conversion" could at most earn Treasury Bill rates, not the 12% return that was advertised. He also proved that there were not enough index put option contracts in the whole world to cover what Madoff claimed he, alone, was using as a hedge. Irrefutable evidence developed by a CFE is a litigator's dream.
3. **Drill to the Core -** The CFE does more than "tick and tie." Markopolos was suspicious of Madoff's high and steady returns. Madoff's waiving of fees, hiring his brother-in-law's accounting firm under the guise of keeping his trading strategy secret, and flying under the radar of the SEC only fueled Markopolos' suspicions. Investigating the motivations and intent of the players allows the CFE to see the forest in spite of the trees.
4. **Explore Diverse Sources of Information -** Markopolos was not satisfied relying only on documentary evidence. Over dinner in 2005, a "savvy European investor" told Markopolos that a European bank rejected Madoff's request for a borrowing line. Investors also told him that Madoff would eat the losses when the market sold off hard. The CFE gathers testimonial and observational evidence in order to supplement documentary evidence in the quest to uncover the truth.
5. **Display Pit Bull Determination -** Markopolos initially presented his case against Madoff to the SEC in 1999. He meticulously detailed 29 red flags in his subsequent written report to the SEC in 2005. He presented 14 years of data to the SEC and even suggested interview techniques to assist SEC investigators. In typical CFE fashion, Markopolos said that where there's one cockroach in plain sight, many more are lurking behind the corner out of plain view. The CFE is not satisfied until the rest are flushed out into the open.

If you want to uncover an issue that has been swept under the carpet or you do not want to be blindsided by a surprise at trial, then hire a CFE.