

Sam E. Antar

April 28, 2006

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SEC and PCAOB Roundtable on Internal Control Reporting Requirements
Rule Comments File Number 4-511

Dear Chairman Cox:

In the enclosed letter, I have respectfully submitted my comments to the Securities and Exchange Commission and the Public Company Accounting Oversight Board for its Roundtable on Internal Control Reporting Requirements.

It is my position that the issue of accounting education has not been sufficiently explored in relation to the increasing scrutiny of internal controls under Sarbanes Oxley and the increased focus on white collar crime.

As you and your colleagues consider my contribution to the roundtable discussion, please note that I do not make excuses for or attempt to rationalize the crimes I committed as Chief Financial Officer of Crazy Eddie, Inc. I have, however, tried to rectify my wrongdoing by discussing the fraudulent tactics that I employed as a basis for suggesting not only reforms, but deterrents, to the problem of accounting fraud. The problem of continuing fraud by corporate leaders and gatekeepers is multi-faceted and hinges as much on the inadequate education of auditors as on the poor state of internal controls.

The SEC has an opportunity to bring about reform in the way that auditors and corporations alike combat white collar fraud before and during its occurrence. This effort will promote the integrity of financial information, which is the main pillar of our free market system.

The main focus of the SEC in the area of accounting fraud should be redirected to increasing educational standards within the accounting profession, starting from college curriculums forward. It is the prerogative of the SEC to mandate levels of competency for accountants who audit public companies through education and training requirements, which can do much to improve the accounting profession.

While Congress can pass legislation like Sarbanes Oxley and the SEC can add a multitude of audit requirements, the competency of members of the accounting profession must correspond to these more stringent standards. Simply put, competence cannot be legislated, but must be learned.

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Please take the time to read my enclosed letter to Secretary Nancy M. Morris, which presents my views on Sarbanes Oxley and other needed reforms. I have expressed my opinions within the context of the Crazy Eddie fraud so as to offer insight into fraudulent techniques for which no reform has been established.

My website www.whitecollarfraud.com provides more extensive information on the Crazy Eddie fraud as well as my opinions on recent fraud legislation. I thank you for soliciting contributions to the roundtable discussion and hope that this initiative and others like it will do much to prevent accounting fraud and the economic injury it causes.

Sincerely,

Sam E. Antar
Former Chief Financial Officer of
Crazy Eddie Inc.

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April 28, 2006

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20649-1090

Re: SEC and PCAOB Roundtable on Internal Control Reporting Requirements
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The Implications of the Crazy Eddie Fraud for 21st Century Auditing Practices

I am the former Chief Financial Officer of Crazy Eddie, Inc., a now-defunct chain of consumer electronics stores in New York and New Jersey whose common stock began publicly trading in September 1984. Along with my cousin Eddie Antar, his father Sam M. Antar, and other members of Eddie's immediate family, I helped to mastermind one of the largest securities frauds perpetrated in the 1980's. The notoriety of this case has continued into the 21st century. "Crazy" Eddie Antar, dubbed the "Darth Vader of Capitalism" by the then-United States Attorney Michael Chertoff (now the Secretary of Homeland Security), has left a legacy of fraud that has important implications for today's auditing practices.

The Crazy Eddie fraud and others like it were prime reasons for later reforms like Sarbanes Oxley, the formation of the Public Company Accounting Oversight Board (PCAOB) and stricter auditing standards in general. The brazen and unprecedented methods used in the Crazy Eddie fraud to subvert standard auditing procedures are still instructional today and should be considered in the context of recent reforms.

My employment at Crazy Eddie began in 1971 at the age of 14, when I was hired by Eddie Antar as a janitor and stock boy in one of the stores. From its inception, Crazy Eddie ran a cash-based business, and my starting salary was \$10 a day off the books. I was interested in numbers and statistics from a young age and was an avid reader of the Wall Street Journal and Barron's from the age of 13. Hoping to keep all aspects of the Crazy Eddie business within the Antar family, which was very tightly knit, Eddie paid my way through college with a view of making me the "numbers man" of the operation.

With a degree in accounting from Bernard Baruch College, I passed the CPA exam in the top 98th percentile in 1980. While I was in college, Crazy Eddie retained a small accounting firm to audit its books and records, and was the firm's largest client. To complete the two year audit experience requirement for

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my CPA license, I went to work for this firm from 1981 to 1983, while continuing to work part-time at Crazy Eddie, where I helped to skim cash sales receipts, particularly during the busy holiday season. Through my position at the accounting firm, I had access to the audit work papers for the Crazy Eddie audits.

The culture of tax evasion was prevalent from the onset at Crazy Eddie. Our philosophy was that the government was not entitled to any taxes that we could hide from it. The family's choice to hire a small accounting firm to audit the company's records was motivated by the fact that Crazy Eddie was engaged in a massive skimming fraud. We also perpetrated other forms of tax evasion, consumer fraud, and insurance fraud.

From 1979 to 1984, Crazy Eddie gradually reduced its skimming each year to create artificial profit growth in the years prior to its initial public offering. It in effect created a fraud by "going legitimate." I was learning from our own accounting firm the methods by which our records were audited and reporting this information back to the family so as to better subvert our auditors.

By 1984, Crazy Eddie had gone public and had hired the ninth largest accounting firm in the world to audit its records. We chose this firm because the company almost completely lacked internal controls and had no chief financial officer. My father, Eddy Antar, who had a high school education, was the Treasurer. Despite an article published in Barron's criticizing the company, Crazy Eddie went public and became the darling of Wall Street. The company's \$40 million capitalization at the time of the initial public offering grew to a \$600 million market capitalization, built completely on fraud.

I received my CPA license in 1985 and became the Controller of Crazy Eddie that same year. In 1986, I was appointed Chief Financial Officer.

As a public company, we overstated our profits (rather than understate them as a private company so as to underpay taxes), to increase our reported earnings to shareholders and inflate the market price of Crazy Eddie stock. Eddie, Sam M. Antar, and other family members sold over \$100 million dollars in inflated and worthless stock. I never made a profit selling Crazy Eddie stock.

During the period from 1984 to 1987, we overstated the values of our inventories, understated how much money we owed our creditors and even put some of the previously skimmed money back into the company to overstate the earnings of Crazy Eddie. We committed a host of other frauds too numerous to list here as well.

The auditors failed to do fundamental audit work which would have uncovered at least some of the fraud, such as sales cut off testing, aging accounts payable and adequate substantive testing. In the last two years (1986 & 1987) under Antar family control, the auditors failed to be present at all of the

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inventory locations, leaving Crazy Eddie employees alone to take inventories at year end for many of the store inventory locations. In the last year of the audit, they left the key to the supposedly secure audit work in a paper clip box on an office desk at Crazy Eddie premises at night.

Sarbanes Oxley

Many accounting firms have lobbied claiming that consulting services help them understand their clients better. My experience from Crazy Eddie has shown me that this was simply untrue, since both accounting firms that used to audit the company provided consulting services far in excess of their audit work. In fact during the last two years of the Crazy Eddie fraud, when the largest part of the fraud was perpetrated, in terms of overstatements of earnings, the large accounting firm had consulting personnel at Crazy Eddie almost every day.

There have been people advocating exempting or relaxing Sarbanes Oxley regulations for companies with small market capitalizations (under \$125 million). As stated previously, Crazy Eddie went public with a market capitalization of \$40 million (already built on a skimming fraud) and its market capitalization eventually rose to over \$600 million in less than two years. Therefore, Crazy Eddie would have been subject to the SOX exemption when it went public.

Sarbanes Oxley - Review of Internal Controls

Many critics of SOX have argued that internal controls are too costly for small companies. The auditors of Crazy Eddie tried to remedy the situation by doing a so called "substantive audit" with no reliance on internal controls since the company's internal controls were very poor. While in theory you can conduct an audit without reliance on internal controls, the absence of adequate internal controls poses the problem of making almost all companies difficult or virtually impossible to audit. Therefore, the review of internal controls of a company by independent outside auditors is crucial for effective auditing. It is evident that a company must have a viable system of internal controls to be auditable. Both items are not mutually exclusive.

In many instances I found that the size of the accounting firm had no bearing on their ability to conduct an audit. The accounting firm that ranked number 9 in the world and audited Crazy Eddie from 1984 to 1986 merged into a "Big Eight" firm in 1987 (a 'big four' firm now) the last year of our fraud. Ultimately, the Crazy Eddie fraud was not uncovered by the company's auditors but as a result of informants due to family infighting.

Auditors' Lack of Investigative Skills

I found that the auditors of our accounting firms in many cases did not know how to ask the right questions. When they did ask the right questions, they

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did not know how to formulate the proper follow up questions and were often too trusting of the answers they received. Many of the auditors were not educated or trained well enough for their assignments. In point of fact, accounting students are not trained to conduct field interviews in college and there are no prerequisites for interviewing skills or education level to obtain a CPA license.

As a CPA, I used my familiarity with accounting practices to outwit and mislead the auditors. I also counted on the weakness of human nature. Auditors do not want to believe their client is committing a crime.

For example when we had converted our “off the books” payroll to a fully “on the books” payroll prior to our initial public offering, the auditors noticed many people who had been working for only \$5,200 per year now being paid \$52,000 or more per year. They simply accepted our explanation of the sacrifice and dedication of these employees, due to their investment in the future growth of a growing public company.

In 1987 I simply changed two words in the footnotes of our disclosure regarding the treatment of trade discounts and allowances to being recognized “when earned” rather than “when received”, making them accounted for on a cash basis. I had discussed this change with the auditors but there was no accounting change adjustment as required under generally accepted accounting principals (GAAP). The Wall Street analysts and the investing public did not notice required accounting adjustment under GAAP.

Auditors' Inexperience

I found that in many cases, auditors lacked the experience to handle their field assignments. For example, the person who handled most of the auditing for Crazy Eddie's accounts payable in 1987 had only six months' experience in accounts payable and finished his work after the audit was signed off. The auditor found major discrepancies in these records (which were later found to be fraudulent in the SEC and FBI investigation), but never investigated them during the audit. As a result, Crazy Eddie's accounts payable was understated by 40% that year.

Accounting Education

Even today there are many complaints by companies and critics of Sarbanes Oxley relating to the auditors review of internal controls in that they are merely filling in boxes in their work papers. Like the auditors of Crazy Eddie, today's auditors have not been adequately prepared for conducting these reviews.

The solution is very fundamental. It is about education. Competence cannot be legislated, though it can be learned. Sarbanes Oxley, the PCAOB and

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new accounting regulations instituted by the American Institute of Certified Public Accountants (AICPA) (SAS Number 99, for example) have placed much emphasis on internal controls and detecting fraud. A significant majority of accounting students still do not take a single dedicated college level course to gain a complete understanding of these new requirements. They are often simply learned as part of a general auditing course and are covered within a day or two of the semester.

Legislation such as Sarbanes Oxley cannot be effective unless it is properly incorporated into the education of accounting students. As the future auditors of modern businesses, these students simply do not have enough education on issues such as white collar fraud, internal controls, securities laws, accounting standards, and auditing standards and techniques.

Most accounting students do not take a single college level course on white collar fraud, internal controls, securities law, insurance, sureties, estates, etc. In fact, many of the subjects that are tested on the CPA exam are not covered in college. They must "learn" these subject areas in a CPA exam (cram) review course after they graduate.

Criminology and criminal psychology courses are almost nonexistent within the context of an accounting education. A minority of universities and colleges offer a specific white collar fraud class today and most of those schools offer it as an elective course. Students are not even taught how to ask proper questions or conduct field interviews. Criminology and interview skills are not covered on the CPA exam. How can the auditors expect to match the wits of criminals who actively engage in committing white collar fraud?

The lack of education on these substantive issues is all the more disturbing given that the required amount of credits to receive a CPA has since been increased from 120 credits to 150 credits. The requirements for passing the CPA exam have also been relaxed in many states.

The AICPA only "suggests" that CPAs take 10% of their mandatory continuing education credits in fraud related areas without making distinctions pertaining to an accountant's main areas of work.

In sum, the profession is not adequately educated, trained, and skilled to deal with individuals who are intent on evading the law. I strongly suggest that the SEC and the PCAOB establish higher minimum education, skills, and training standards for accountants who conduct public company audits and evaluate such internal controls. In addition I strongly suggest that the AICPA establish higher minimum education, skills, and training standards for accountants who conduct private company audits and evaluate such internal controls.

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The system for educating our future CPAs must be reformed and upgraded or the new reforms such as Sarbanes Oxley will be of very limited value. The college curriculums and continuing education standards must be improved.

In the CPA Letter, published by the AICPA, in January 2003 an article said, "Sam Antar, a former CPA with the now-defunct Crazy Eddie's electronics chain, would be the first to agree that CPAs need to learn more about fraud. That's because Antar, now a convicted felon, helped engineer a half-billion dollar financial statement fraud that was made possible by taking advantage of the company's independent auditors."

With the requirements of Sarbanes Oxley and new auditing standards such as SAS Number 99 and the lack of corresponding education, training and skills for our accountants, professionals are being sent into the field without being properly equipped to implement these standards.

Today, there has been a multitude of company restatements of financial reports, the PCAOB has reported too many issues relating to weaknesses in its review of audits conducted by many accounting firms, and far too many frauds are uncovered years after the fact, once significant damage has been done. This evidence casts a poor reflection on both company professional accounting staff (since many internal accountants go through the same education curriculums as CPAs and are CPAs) and external auditors and signifies a lack of proper education, training, skills, and internal controls.

Auditor Independence, Criminal Psychology, and Audit Costs

Today, the Crazy Eddie fraud is referenced in many publications, textbooks and theses and is also included in many university curriculums. Many have wondered whether the long enduring success of the Crazy Eddie fraud was due to the criminal subversion of the Antar family or the incompetence of the auditors involved. People have also speculated as to whether the independence of the auditors was impaired because of the extensive consulting work that Crazy Eddie gave them, which served as a significant source of revenues.

I have many answers. With regards to the small firm we used for many years my cousin Eddie always liked the fact that he was their biggest client of which they derived significant revenues as a means of deriving indirect undue influence. Regarding both the small and large accounting firms, as criminals taking advantage of human nature we believed our largess made them less likely to ask the tough questions. Maybe they were embarrassed or maybe their economic self interest of losing high paying consulting agreements played a role. Instead did they not have the education, training, and skills I am advocating or were they plain stupid?

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What is known is that it was common practice in the profession at the time to “loss leader” the audits fees, or have low margins of income on these fees and make it up with other business. Perhaps this is one unspoken reason today (in addition to litigation costs absorbed by accounting firms) why auditing fees have escalated as they have.

Understanding White Collar Fraud, Criminality, Consulting Work

I also knew that the lack of basic education on the part of the auditors, regardless of how much consulting work they did with the aim of “knowing the client”, would make them essentially incapable of detecting the fraudulent techniques that we employed. They knew nothing about criminology. They could not fathom that their clients were committing frauds.

They ignored signs like insiders selling their stocks at almost every opportunity and the outlandish answers they received to their infrequent good questions which were never followed up.

Preventing White Collar Fraud

Recently, many white collar criminals have received very stiff sentences, which I firmly support. However, this is not a material deterrent to crime, but rather a society’s policy for dealing with the consequences of those found guilty of it. A substantial majority of white collar crimes are committed by people without prior criminal records.

Since being released from prison, Barry Minkow (ZZZZ Best Fraud), now a pastor, respected community leader, author, and private investigator, has helped the government uncover billions of dollars in fraud. He was once aptly quoted in The Guardian on July 11, 2002 as saying, ““Everyone I met in prison had one thing in common - they never planned on being there.”

White collar crime will continue to be a fact of society. It is only a matter of how often these crimes will be brought to justice based on the diligence of those who are properly trained. It will be either more noticed or less noticed.

Crazy Eddie was not the exception to the rule, but, rather, a small case, although highly sensationalized for the time, relative to today’s fraud headlines such as Enron, WorldCom, Tyco, and others. This is only proof that the lessons demonstrated during a time when fraud occurred on a much smaller scale still have not been inculcated. My lack of prior criminal engagement is also not exceptional since over 88% of white collar fraud is committed by people without prior criminal records. Do students or audit staffs know this?

To deter this form of crime, companies need to build better barriers through strong internal controls. We require an accounting profession with a

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higher level of education, training and skills that is strongly independent from its clients.

We need the implementation of laws like Sarbanes Oxley. Better internal controls for corporations, are not just a means of combating fraud but are a matter of good business practices in general.

In an article published in the New York Times on December 3, 2005: *"For all its cost, Sarbanes law is working,"* by Joseph Nocera,

John J. Mahoney, the chief financial officer at Staples, which has a market cap in excess of \$16 billion, has spent \$7 million to \$10 million instituting Sarbanes-Oxley. "But it's been worth it. It has offered us an opportunity to look at our processes, and in many cases to improve them," he said. "We found that our people really benefited from the processes." He concluded: "It has made Staples a better company."

One simple lesson from the Crazy Eddie fraud that can be learned is that companies who get capital from the public markets (public companies) have a sacred fiduciary duty to their investors and creditors to have strong internal controls that are verifiable and reviewed by well qualified, truly independent auditors. Private companies, too, owe the same duty to their creditors and shareholders.

Strong internal controls, auditor independence, accounting education, and the integrity of financial reporting are the four main pillars to the soundness of our financial reporting system. They must all work in conjunction for accounting standards to be properly implemented.

Importance of Integrity of Financial Information to Survival of our Capitalist Free Market Economic System

The main pillar of our capitalistic free market economic system, which is a cornerstone of democracy, is the integrity of financial information. Without reliable financial information, capitalism cannot and will not survive. However, the integrity of financial information can only be achieved through building blocks such as sound internal controls and independently verifiable financial information. The well educated, skilled, and experienced accountant is the first line of defense for the capitalist system.

Sarbanes Oxley is the Beginning of the Solution

Sarbanes Oxley should only be considered a first step in a much more complex process towards improving a system of internal controls and, by default,

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the integrity of financial reporting. Let us start the process of making stronger the corporations, which is at the heart of our economic system.

Respectfully submitted,

Sam E. Antar
Former Crazy Eddie Chief Financial Officer

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Today I am the Chief Executive Officer of Real Intelx LLC, a real estate development company. I have done voluntary work with professional groups such as the Association of Certified Fraud Examiners (ACFE), the Institute of Internal Auditors, many colleges and universities, state and local government agencies, and other business and professional groups in lecturing about white collar crime.

I pay all of my travel and lodging expenses out of pocket. In addition, I have assisted the ACFE and the AICPA in developing education materials about fraud for which I have received no compensation. For additional information please see my web site www.whitecollarfraud.com.