

Whitewater Drowned Webb Hubbell

From Number Three at the DOJ to the Federal Pen



Back in the mid-nineties you might have seen Webster Hubbell on television, where his sad eyes and rueful demeanor made him look as if he'd spent some quality time with the Grand Inquisitor. In person what you notice are his massive shoulders. They serve as a lasting reminder of his days as a star tackle at the University of Arkansas, when the world was his oyster.

"I was drafted by the Bears," he says. "If I'd chosen that path I'd probably own a bar in Chicago now, and be a happy man."

Instead Hubbell went to law school, and entered politics. He was elected mayor of Little Rock at age 30, his fortunes became entwined with another Arkansas politician, and the rest, as they say, is history. By the time former President Clinton appointed him associate attorney general of the United States in 1992 his resume included a stint as chief justice of the Arkansas Supreme Court, and several years as managing partner of The Rose Law Firm in Little Rock. It looked like there was no stopping him, but something in Hubbell's past was about to sneak up and bite him.

"My former partners were assessing some financial irregularities that had occurred while I was managing the firm," he says. "When Ken Starr put pressure on

them in regards to Whitewater, they made a deal."

Starr left Hubbell's ex-partners alone. In return he got the goods on the number three man in Clinton's Justice Department. In 1994, Hubbell was convicted of stealing nearly \$400,000 from the firm. He was offered his own deal, but steadfastly insisted that he had nothing to give. About the time Clinton was re-elected in 1996, Hubbell was finishing an 18-month stay in federal prison.

The hundreds of thousands he stole from his firm accumulated slowly, facilitated by a management practice that was so stupid it should have been illegal. During the 1980s, while he managed The Rose Law Firm, Hubbell had one American Express Card that he was allowed to use for both firm and personal expenses.

"I was living beyond my means," Hubbell candidly admits. It was a recipe for disaster.

One day, confronted with a credit card bill he couldn't pay, Hubbell simply "borrowed" the money by writing a check on the firm's account. "I truly looked on it as a loan," he says. "I was always going to pay it back next month." But that would have meant cutting back a life style to which he and his family had become accustomed. It never happened.

Meanwhile some of the firm's corporate clients

became willing accomplices in another form of life style-driven fraud. “I’d often meet with a general counsel or some other officer to discuss business,” he explains, “and one of us would suggest that an expensive meal and an excellent bottle of wine might find its way into the firm’s bill for legal work.”

Another routine scam concerned travel. “A corporation might have a policy against its officers flying first class, but if I book a first class ticket and send it to over for approval, no problem,” says Hubbell. “I’d simply itemize it as ‘Airline Travel - \$2000,’ but wouldn’t show it as first class.”

Queried on whether he thinks an outside attorney’s willingness to perpetrate such fraud ever enters into the decision to hire a firm, Hubbell was noncommittal. “When it comes to selecting a law firm personal relationships are very important, and there are a lot of factors involved,” he says.

He smiled, and declined the opportunity to say that committing billing fraud was one of those factors. He did make it clear that he considered the practices he described common.

After prison Hubbell linked up with Gary D. Zeune, a Columbus, Ohio-based CPA who runs Pros and Cons, a speaker’s bureau made up of former white collar criminals who, according to Zeune’s literature, “vividly tell the hows, whys and results of their crimes.” For awhile Hubbell was the lead attraction of Pros and Cons.

The hundreds of thousands he stole from his firm accumulated slowly, facilitated by a management practice that was so stupid it should have been illegal.

Zeune is clearly a man who enjoys the company he keeps. Hubbell was high profile, but he was low key in comparison to some of the con artists in Zeune’s stable. Zeune first teamed up with Barry Minkow, a human cash cow who founded ZZZZ BEST, a carpet cleaning company, in 1978, when he was 16. When Zeune met him in 1994 Minkow was on parole from a seven-year prison sentence. He’d beaten banks and investors out of about \$100 million.

Minkow eventually reverted to type and became an evangelical minister, so Zeune brought in Mark Morze, Minkow’s former partner at ZZZZ BEST. Morze likes to regale audiences with the tale of how he created 10,000 phony documents to report \$43 million of phony revenue. The documents passed muster with legions of accountants. Minkow is now a senior pastor in San Diego and a partner in Fraud Discovery Institute. His new book, “Cleaning Up: One Man’s Journey

Through the Seductive World of Corporate Crime,” made the New York Times best seller list.

Perhaps the most interesting member of Zeune’s troupe is Dunlap Cannon III, a real estate attorney from Memphis who embezzled about \$10 million. His MO was a variation on a common swindle, “lapping” accounts receivables — i.e., stealing money from one client, then covering it with money that comes in from another client.

Cannon lapped loan closing proceeds from escrow accounts that he controlled. The tip-off was there for all to see. His clients consistently grumbled about how long it took to close their loans. Nevertheless, accountants, title company auditors and bar association auditors failed to catch him for years. According to Zeune, Cannon is an avatar of his chosen trade.

“If he was dealing with a junior accountant who didn’t understand loan closings he’d give a plausible sounding explanation and get away with it easily,” says Zeune. “Those people don’t have a clue. But if he was talking to someone like a title insurance company auditor, who was supposed to know what he was doing, Dunlap had another method. He’d give an answer that was so complex that they couldn’t understand it, but they’d be too embarrassed to admit it.”

The same qualities that enabled Cannon to pull off his scam, charm, chutzpah and a bottomless reservoir of arcane BS, make him an excellent public speaker.

A good snow job and someone who is too proud to admit he’s been snowed are the key elements in many major white collar scams, says Zeune. The minor stuff anyone can learn, and in his opinion law firms and corporations have an excellent system for teaching it.

Law firms show associates how to do the kinds of things that Webb Hubbell described by acknowledging such practices with the traditional wink and nod. Corporations and their law departments, in his opinion suffer from an inability to see the forest for the trees. The example he uses is that of a young corporate executive, stuck in a hotel after a hard day’s work, who watches a pay-per-view movie. Half way through the film he realizes the bookkeeper will delete that item when his expenses are reimbursed, per company policy. The resentment this engenders motivates him to pick up an extra taxi receipt, and beat the company out of \$18.

“It happens all the time,” says Zeune. “The organization’s message is, ‘you might be out there making us thousands of dollars, but we’re going to stiff you for five bucks.’” His suggestion? Give them their hotel room plus \$100 a day to spend or not as they please, and save the bother, expense and ill-will generated by persnickety bookkeeping.