One of the most common forms of computer crime is data diddling -- illegal or unauthorized data alteration. These changes can occur before and during data input or before output. Data diddling cases have included banks, payrolls, inventory, credit records, school transcripts, and virtually all other forms of data processing known.

One of the classic data diddling frauds was the Equity Funding case, which began with computer problems at the Equity Funding Corporation of America, a publicly-traded and highly successful firm with a bright idea. The idea was that investors would buy insurance policies from the company and also invest in mutual funds at the same time, with profits to be redistributed to clients and to stock-holders. Through the late 1960s, Equity's shares rose dizzyingly in price; there were news magazine stories about this wunderkind of the Los Angeles business community.

The computer problems occurred just before the close of the financial year in 1964. An annual report was about to be printed, yet the final figures simply could not be extracted from the mainframe. In despair, the head of data processing told the president the bad news; the report would have to be delayed. Nonsense, said the president expansively (in the movie, anyway); simply make up the bottom line to show about $10,000,000.00 in profits and calculate the other figures so it would come out that way. With trepidation, the DP chief obliged. He seemed to rationalize it with the thought that it was just a temporary expedient, and could be put to rights later anyway in the real financial books.

The expected profit didn't materialize, and some months later, it occurred to the executives at Equity that they could keep the stock price high by manufacturing false insurance policies which would make the company look good to investors. They therefore began inserting false information about nonexistent policy holders into the computerized records used to calculate the financial health of Equity.

In time, Equity's corporate staff got even greedier. Not content with jacking up the price of their stock, they decided to sell the policies to other insurance companies via the redistribution system known as re-insurance. Re-insurance companies pay money for policies they buy and spread the risk by selling parts of the liability to other insurance companies. At the end of the first year, the issuing insurance companies have to pay the re-insurers part of the premiums paid in by the policy holders. So in the first year, selling imaginary policies to the re-insurers brought in large amounts of real cash. However, when it the premiums came due, the Equity crew “killed” imaginary policy holders with heart attacks, car accidents, and, in one memorable case, cancer of the uterus – in a male imaginary policy-holder.

By late 1972, the head of DP calculated that by the end of the decade, at this rate, Equity Funding would have insured the entire population of the world. Its assets would surpass the gross national product of the planet. The president merely insisted that this showed how well the company was doing.

The scheme fell apart when an angry operator who had to work overtime told the authorities about shenanigans at Equity. Rumors spread throughout Wall Street and the insurance industry. Within days, the Securities and Exchange Commission had informed the California Insurance
Department that they'd received information about the ultimate form of data diddling: tapes were being erased. The officers of the company were arrested, tried, and condemned to prison terms.

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More about this notorious case next time.

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