What can we learn from Equity Funding scandal? Here are some thoughts for discussion:

The auditors were incompetent. The firm was tiny -- it was hand-picked by the directors of Equity so that Equity would be the auditors' biggest account, generating 80% of that firm's revenue.

The auditors depended on inadequate sources of information. They asked employees of the firm they were auditing to provide them with the documents they needed; however, auditors should always get the documents themselves (i.e., someone from the auditing firm should be physically present as the documents are located).

The auditors accepted excuses for delays in meeting their requirements for random samples of documents. It is not acceptable that a required document be delayed. The reason for the delay must be shown unambiguously to be legitimate.

The auditors were incapable of determining what the computer programs were doing with the data. A qualified auditor would have used independent data processing expertise to discover that imaginary policies were identified by a “code 99.”

The bubble burst because of a disgruntled employee. It was not a clever program or a special security device that foiled the criminals' plan: it was an observant human being who was willing to blow the whistle and report his suspicions of criminal activity to the appropriate authorities.

As managers, make it clear in writing and behaviour that no illegality will be tolerated in your organization. Provide employees with information on what to do if their complaints of malfeasance are not taken seriously by their superiors. You may demonstrate the seriousness of your commitment to honesty by including instructions on how to reach legal or regulatory authorities.

As employees, be suspicious of any demands that you break documented rules, unspoken norms of data processing, or the law. For example, if you are asked to fake a delay in running a program--for any ostensible reason whatsoever--write down the time and date of the request and who asked you to do it. I know that it's easy to give advice when one doesn't bear the consequences, but at least see if it's possible to determine why you are being asked to dissimulate. If you're braver than most people, you can try seeing what happens if you flatly refuse to lie. Who knows, you might be the pin that bursts whatever bubble your superiors are involved in.

If you notice an irregularity--e.g., a high-placed official apparently doing extensive data entry--see if you can discreetly find out what's happening. See what kind of response you get if you politely inquire about it. If a high-placed employee tries to enter the computer room without authorization, refuse access until your own supervisor authorizes entry--preferably in writing.
If you do come to the conclusion that a crime is being committed, inform your supervisor--if (s)he seems to be honest. Otherwise, inform the appropriate civic or other authorities when you have evidence and your doubts are gone. At least you can escape being arrested yourself as a co-conspirator.

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