Contents

List of Exhibits	XX
Preface	xxii
Acknowledgments	xx
SECTION I	
PROFESSIONAL ENVIRONMENT OF FRAUD DETERRENCE	
1 Fraud Deterrence as a Business Management Tool	3
Introduction	•
Motivations for Process Improvement and Monitoring	3
How the Mighty Have Fallen	-
Importance of Internal Controls in Dynamic External Environments	(
Environmental Change and Its Effect on the Fraud Triangle	7
Where Is Bedrock for Fraud Deterrence?	Ģ
Conclusion	1 1
2 Definition of Fraud Deterrence	13
Overview	13
Deterrence Activities Will Affect Control Culture	14
3 History of Fraud Deterrence	15
Introduction	15
Early Fraud Deterrence	15
Modern Fraud Deterrence	16
4 The Role of Professional Standards	29
Introduction	29
PCAOB Standards	29
American Institute of Certified Public Accountants Auditing Standards American Institute of Certified Public Accountants Accounting	31
and Review Standards	38
Institute of Internal Auditors Standards	38
Association of Certified Fraud Examiners Standards	39
Certified Fraud Deterrence Analyst—National Association of	
Certified Valuation Analysts	40

xvi		Contents
5	The Fraud Triangle Overview Elements	41 41 41
	The Fraud Triangle and Financial Reporting Fraud	45
6	Motivations of Fraud Deterrence and the Transition to Investigation	47
	Introduction	47
	Motivations for Deterrence Analysis	48
	Transition to Investigation	50 55
	Conclusion	
7	A Fraud Deterrence Professional's Overview of the Legal Process	57
	Introduction and Objectives	57
	Basics of Opinion Testimony and the Role of the Judiciary	57
	Expert Qualification Standards: When Is a Witness an "Expert"? Admissibility versus Weight: When Is an Expert's Opinion	59
	and/or Testimony Admissible?	60
	Limitations on the Scope of Expert Opinion Testimony	63
	Reports and Discovery Obligations	64
	Conclusion	65
8	Human Resources Concerns	69
	Retaliation: The Newest Wave of Employment Litigation	69
	An Ounce of Prevention: Background Checks and Employment Inquiries	
	Under the Fair Credit Reporting Act	79
	Checklist for Complying with the FCRA When Using a Third Party to Obtain "Consumer Reports"	83
	Conclusion	84
	Appendix 8A	
	Selected Federal Whistleblower Statutes	85
	Appendix 8B	
	The U.S. Equal Employment Opportunity Commission	86
	Appendix 8C	
	Disclosure to Applicant Regarding Consumer Reports	103
	Appendix 8D	
	Disclosure to Employee Regarding Consumer Reports Appendix 8E	104
	Sample Notice of Intent to Obtain an Investigative	
	Consumer Report	105
	Appendix 8F Fair Credit Penarting Act	106
	Fair Credit Reporting Act Appendix 8G	106
	Sample Disclosure of Nature and Scope of Investigative	
	Consumer Report	109
	Appendix 8H	
	Sample Pre-Adverse Action Notice	110

Co	ontents	xvii
	Appendix 9I	
	Appendix 8I Sample Adverse Action Notice	111
	Appendix 8J	111
	Applicant	112
	Appendix 8K	112
	Current Employee	113
SF	ECTION II	
	OOLS OF FRAUD DETERRENCE	117
9	Internal Control and Fraud Deterrence: The COSO Integrated Framework	119
	Background	119
	Control Environment	122
	Information and Communication	126
	Risk Assessment	128
	Control Procedures	131
	Monitoring	137
10	Recent Corporate Governance Reforms Enacted to Deter Financial Fraud:	
	The Sarbanes-Oxley Act of 2002 and Related Rules and Regulations	143
	Introduction	143
	Board of Directors	148
	Audit Committee	149
	Management	152
	Internal Auditors	153
	Enforcement	154
	Protections for Directors and Officers Conclusion	154
	Conclusion	155
11	Generation-X Technologies and Information Assurance	161
	Overview	161
	Do We Need a Paradigm Shift in Systems Assurance and Auditing?	161
	Generation X Enterprise Technologies: State of the Art	162
	Information Systems Integration: A Challenge	163
	Assured Information Emanates from Assured Systems Information Assurance: A Function of Strategic Importance	166
	Various Information Assurance and Control Measures	166 170
	British Standards: BS7799 and BS 7799-2:2002	170
	System Security Engineering Capability Maturity Model: SSE-CMM	174
	Conclusion	174
12	The Impact of Communications Infrastructure on Fraud Detection	
	and Deterrence	177
	Introduction	177
	Fraud and Technology	177
	Communication Security Solutions	178
	Correlation	187

xviii	
13 Process and Information Validation	189
Part I: Interview and Interrogation Process	189
Difference between Interview and Interrogation	190
Preparation and Room Setting	190
Interviewer/Interrogator Demeanor	193
Detecting Deception	195
Conducting the Interview	199
Interrogation	208
Structured Approach to the Interview and Interrogation	
of a Suspect in a Fraud Investigation	212
Conclusion	215
Part II: Forensic Document and Handwriting Examination	216
What Is a "Document"?	216
Forgery	217
Red Flags of Document Examination	218
Caution	219
Red Flags of Handwriting Identification	220
Suggested Reading	221
14 Data Analysis and Manitoning, Haw Effective Data Analysis Con-	
14 Data Analysis and Monitoring: How Effective Data Analysis Can Identify Fraud Risk Indicators and Promote Business Intelligence	223
Introduction	223
Data Basics	225
Information Systems	237
Generating Business Intelligence	244
What to Look for in Data Analysis Technology	247
Putting It All Together	248
Tutting to the Togother	240
15 Reporting	249
Introduction	249
Function of Fraud Deterrence Reports	249
Reporting on Internal Control	251
Reporting in an Investigation	254
Importance of Documentation	258
Conclusion	259
SECTION III	
APPLICATIONS OF FRAUD DETERRENCE	261
16 Deterring Fraudulent Financial Reporting and Asset Misappropria	tion 263
Introduction	263
Organizational (Corporate) Culture	264
Organizational (Corporate) Governance	266
Internal Controls for Deterrence	268
Deterrence Monitoring	268

Co	Contents	
17	Fraud and the Bankruptcy Code	271
	Introduction	271
	Bankruptcy Refuge for Fraudulent Actors	272
	Bankruptcy Fraud	285
	Fraudulent Transfer Statutes	296
	Intentionally Fraudulent Transfers	302
	Constructively Fraudulent Transfers	303
	Application of Fraudulent Transfer Laws	306
	Remedies for the Recovery of Fraudulent Transfers	311
	Corporate Actors/Individual Liability	313
	Conclusion	317
	Appendix 17A	
	Uniform Fraudulent Conveyance Act and Uniform Fraudulent Transfer Act	318
	Appendix 17B	
	Uniform Fraudulent Conveyance Act	320
	Appendix 17C	
	Uniform Fraudulent Transfer Act	322
	Appendix 17D	
	18 U.S.C. §§ 152–157	328
	Appendix 17E	
	11 U.S.C. § 548. Fraudulent Transfers and Obligations	330
	Appendix 17F	***
	11 U.S.C. § 522 Exemptions	333
	Appendix 17G	333
	11 U.S.C. § 101(31). Definitions	336
		330
18	Discovering and Preventing Fraud in Business Formation and Dissolution	351
	Introduction	351
	Fundamental Assessments	351
	Factors Affecting Whether the Fraud Will Succeed	353
	Informational Rights and Fraud	353
	Approval Rights and Governance	354
	Additional Drafting Solutions	355
	Minimizing the Occurrence of Fraud	355
	Discovery of Fraud	356
	Remedies	356
19	Identity Theft and Privacy Protection	359
-	Introduction	
	Definition	359 360
	Development of an Epidemic	360 361
	The Outbreak and Law Enforcement	361 366
	Protecting Personal Information	366 369
	Detect Unauthorized Use	373
	Defend and Regain Your Identity	373 374
	20000 and Rogain tour identity	314

XX		Contents
	Bulk Data Breaches	375
	The Online Frontier of Phishing and Spoofing	378
	Impact on Fraud Deterrence	380
20	Intellectual Property	383
	Introduction	383
	How to Tell When Your Company Has Intellectual Property	387
	Basic Reasons for Protecting	389
	Routine Protection	390
	Policing Intellectual Property Rights	394
	Possible Recoveries through Litigation	396
	Conclusion	397
21	Fraud Deterrence in the U.S. Private Equity Finance System	399
	Introduction	399
	U.S. Private Equity System and Its Governance Structure	399
	Foundations of a Fraud Deterrence System in Private Equity	405
	Adoption of Internal Control Systems within the U.S. Private Equity System	408
	Conclusions and Recommendations	413
Glo	ossary of Terms	415

423

Index

List of Exhibits

1.1	Maslow's Hierarchy of Needs	6
1.2	USDL Manufacturing Multifactor Productivity Index Values from 1970 to 2001	7
6.1	Key Elements of Attest Audits and Assessments of Internal Controls	50
6.2	Pictorial Representation of the Investigation Cycle and Task Detail for Phase 1	53
14.1	Vendor Master Table	228
14.2	Purchasing Discounts Master Table	229
14.3	Purchasing Transaction Table	230
14.4	Purchasing Master Table (Prior to Normalization)	231
14.5	Vendor Table and Product Table (First Normal Form)	232
14.6	Vendor Table, Product Table, and Vendor Product ID Table (Second Normal Form)	233
14.7	Vendor Table (with Key Independent Fields)	234
14.8	Table Structure	236
14.9	Table Relationships	237
14.10	Sample Process and Control Matrix	239
14.11	Sample Process and Control Flow	240
14.12	Sample Process and Control Procedures	241
14.13	Macro and Micro Level Analysis	245
14.14	Systems Migration Criteria and Assessment Model	247
14.15	Sample Project Plan	248
15.1	Sample Information for Inclusion in a Fraud Deterrence Report	252
15.2	Sample Report on Overall Process Internal Control Status	253
21.1	Private Equity Cycle	400
21.2	Private Equity Investment Horizon Performance through December 31, 2005	402
21.3	Sand Hill Index Values, January 1989 to September 2005	404