

# **ÆGIS**



## ***Addressing threats that affect your bottom line***

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## 1. Asset Location and Due Diligence — ACH Debits

You get them. You know, those pesky little checks for \$12.00. “That must be the rebate check I was expecting.” So you deposit the check. What you may not been aware of is that the check had an endorsement on the back of the check. It said that if you deposit this check, Company X will ACH (Automated Clearing House) debit your account for “Y” dollars every month for a service.

The problem is that once the ACH debits start they are almost impossible to stop without closing the account. This may be a pain in the neck for people, but imagine a large corporation that receives one of these checks in their payment lock box, where all the checks are swept and deposited several times per day with nobody really looking carefully at them. Changing one of these accounts may take months and many tens of thousands of dollars in man hours alone, not to mention check reprinting etc...

How do you prevent the deposit of one of these ACH debit checks? For a person, it’s simple; Read what you get in the mail, and don’t deposit them.

For a large corporation, you really only have a few choices. One of them is ACH blocking and filtering. Many banks allow you to set up your business account with options to post no ACH entries, post only ACH credit entries, post only ACH debit entries, post only certain ACH debit and/or credit entries, and to automatically return unauthorized items to the originating company.

ACH blocking aside, it is prudent to set up your accounting so that deposits are made only into one account. Once they clear, the funds are transferred out to other accounts for the payment of goods and services. These other accounts do not take deposits other than your own transfers. Never, set up a tax account that would accept direct deposits, particularly without ACH blocking. Can you imagine trying to get 50 states and all of the municipalities changed to a new account just to solve your ACH withdrawal problem? Yikes.

There is an interesting question as to what law governs these restrictive endorsements. UCC? Commercial Contract Law? NACHA? And is this a corporate-to-corporate debit or ???

It will be interesting to see how this evolves as Check 21 continues to roll out. (<http://www.federalreserve.gov/paymentsystems/truncation/>)

## **2. OPSEC, Economic Espionage, and Competitive Intelligence — From Europe**

### ***Competitive Intelligence***

An interesting story by Alf Young in Glasgow's Sunday Herald (<http://www.sundayherald.com/54143>) mentioned a piece – the content of which doesn't matter for this particular article – that he had written a quarter of a century ago.

“Roche didn't dispute my numbers. But it did fly a team of four senior UK executives to Glasgow in a company jet to confront me and my editor.”

They were about to accuse me of some damaging industrial espionage, when I pointed out that my numbers were all from published sources. The only trick was knowing where to look and adding all the component parts up.”

Reporters are good at gathering information. They are, in fact, as good as the people you hire to staff your competitive intelligence department, who are, you hope, as good as the people that your adversaries and competitors hire to staff their competitive intelligence groups.

The last time we needed to rent a Gulfstream 5, corporate jets (and their crews and maintenance) didn't come in Cracker Jacks boxes, and senior managers tended to be a bit pricey. Based on our dealings with pharmaceutical giants here in the U.S., it is a safe guess that the amount of money spent on that trip twenty-five years ago is greater than what Roche will spend this year on OPSEC.

### ***Economic Espionage***

A story in the Observer discussed a clear case of economic espionage in Italy (<http://observer.guardian.co.uk/world/story/0,,1712962,00.html>). There was a very professional break-in (captured on the security cameras) at a flower grower's, stealing the computer (as well as floppy disks and CD-ROMs ) which contained customer lists, pricing information, and information about rare flowers and the development of hybrids.

Were the various pieces of media encrypted? We would guess not. After all, we are talking about flowers here, not nuclear secrets. Since the (incorrect) perception is that spies only steal military secrets, there would have been no perceived need for this company to implement an OPSEC program, identify adversaries that would do such a thing, and develop appropriate countermeasures to deal with the threat. If major US corporations don't bother to do so, in spite of SEC requirements, why would an Italian flower grower?

### 3. Executive Protection — China Syndrome: Staving off social meltdown in rural China

Contributed by Max Hirsch (hirsch@taipeitimes.com). Max Hirsch is a translator in the Ministry of Economic Affairs in the Taiwanese government. He also conducts research for the Ackerman Group, a Miami-based risk consulting and investigative company that specializes in kidnap victim recovery. Contributed articles do not necessarily reflect the viewpoint of AEGIS.

The Hu administration is not adequately addressing the deteriorating security situation in China. The problem appears to be worsening.

Political supremacy in the People's Republic of China is locked up in three titles: President, General Secretary of the Chinese Communist Party (CCP), and Chairman of the Central Military Commission (CMC). Soon after succeeding Jiang Zemin as CCP general secretary and president in 2002 and 2003, respectively, President Hu Jintao sought to acquire the remaining title and consummate his pursuit of power. Hu skillfully nudged Jiang into early retirement from his last post as CMC chairman in September 2004, taking the reins of the CMC for himself.<sup>1</sup> As China's new paramount leader, Hu has inherited the fastest growing economy in the world; under his stewardship, China has continued prospering.<sup>2</sup> However, for all its successes, China's tremendous social problems threaten – more so than ever – to derail its hugely successful developing economy: China's remarkable statistics regarding the scope and rate of its economic modernization are rivaled by the sheer number of “mass incidents” nationwide (i.e., protests and other major “public order disturbances”) in recent years, as well as the rate of increase of such incidents.<sup>3</sup> In light of disturbing statistics that suggest social unrest is fast eroding political stability/public safety in rural China – and will continue to do so – Chinese authorities are rushing to stabilize the countryside with a mixed bag of sticks and carrots. This paper seeks to briefly address what the Chinese government has and has *not* been doing to restore order in the countryside since Hu consolidated power, and how effective the government's response has been.

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<sup>1</sup> A New York Times researcher at the Times' Beijing bureau – Zhao Yan – helped break a story revealing the political intrigue behind Jiang's unexpected retirement as CMC chairman. Shortly after, Zhao was yanked from a Pizza Hut in Shanghai by government agents and has since been imprisoned. He has been formally accused of “leaking state secrets” and is standing trial.

<sup>2</sup> China's GDP growth in 2005 was 9.9% and has surpassed Britain, France, and Italy to become the fourth largest economy.

<sup>3</sup> For what official Chinese statistics are worth, there were 10,000 major public disturbances in China in 1994 involving 730,000 people; that figure rose to 74,000 in 2004 involving 3.76 million people. Between 2004 and 2005, the number of public disturbances continued to rise at a rate of 6.6% to 87,000.

Although Hu is still largely a mystery to Western and Chinese observers alike, his low profile and heavy-handedness cast him as a subtle hardliner. He is also highly responsive to his nation's needs, particularly the need to narrow the yawning wealth gap between China's urban and rural populations.<sup>4</sup> With Jiang out of the way, Hu is confidently asserting a new ideological direction for the CCP to address this problem. Whereas Jiang carried on the breakneck economic reforms of his predecessor Deng Xiaoping with his "Three Represents" doctrine, Hu is focusing on the great divide between the haves and have-nots; his "Harmonious Society" doctrine is his ideological retort to China's Social Darwinist mad dash under Deng and Jiang to become an economic powerhouse.

Hu's populist ideological bent and policies constitute the carrots that are being used to address public unrest. Under the auspices of the Harmonious Society doctrine, the government has been investing heavily in rural education and welfare, and is eliminating taxes that hurt farmers. Hu is also cracking down on corruption in the party rank and file like never before, prosecuting 50,000 officials nationwide in a 2-year ongoing campaign against corruption.<sup>5</sup> Even top officials are coming under fire.<sup>6</sup>

In curiously blunt statements, Premier Wen Jiabao was quoted in state-run newspapers in January 2006 as saying that illegal seizures of farmland by local authorities were the main source of rural instability. He also reaffirmed the government's plan to boost rural spending, improve working conditions, and protect migrant workers. A high-profile communiqué issued on 6 January 2006 by the Central Commission for Discipline Inspection, the party's anti-corruption watchdog, calling on party members to do more to stop corruption, further underscores the party's determination to "clean house" and raise the living conditions of the rural population.

To be sure, the new generation of leaders in the reign of Hu is just as focused on economic development as its predecessors. The doctrinal shift

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<sup>4</sup> According to the Chinese National Bureau of Statistics, the top 10 percent of the richest Chinese currently enjoy 45% of the country's wealth, while the poorest 10 percent possess only 1.4%. Moreover, rural incomes average \$300 a year while urban incomes average \$1,000.

<sup>5</sup> According to China's Central Commission for Discipline Inspection, more than 1,000 party cadres have committed suicide and 8,000 have fled China in the course of the campaign.

<sup>6</sup> In August 2005, the former CEO of the Bank of China's (BoC) Hong Kong subsidiary and vice president of the entire bank, Liu Jinbao, was sentenced to death for accepting bribes and embezzling millions of dollars. Liu was the poster boy for Chinese banking in Hong Kong, running the most important Chinese-owned bank in the former British colony for six years.

In December 2005, former cabinet minister Tian Fengshan was sentenced to life in prison for accepting bribes while in office in the highest level anti-corruption trial in 4 years.

from Three Represents to Harmonious Society has not resulted in less of a policy emphasis on economic liberalization; the government is doubling back to pick up the masses left behind in the first two decades of “opening up” while forging ahead with economic liberalization. With a migrant population 150 million strong, drifting between the cities and countryside, and a growing middle class eager for higher standards of living, Hu is keenly aware of the need to sustain high growth. Maintaining political stability in China is a tightrope act – the acrobat must balance many factors in preventing the unemployed/underemployed from hitting critical mass. So far, Hu has displayed fair balance.

But let’s not forget that Hu also wields a long, mighty stick to steady himself on that tightrope. Economic populism and liberalism are just the carrots. Hu is also active in a Machiavellian sense, putting the screws on state media, reining in telecommunications freedoms, and cracking down on demonstrators and other “agitators.” Although recent outbreaks of police violence against protestors in Guangdong Province<sup>7</sup> seem not to have been sanctioned by Beijing, implementing oppressive tactics in affected regions after the fact *is* a typical response to such mass incidents by local authorities, and is likely at least tacitly endorsed by top leaders, provided “damage control” is achieved.<sup>8</sup>

Moreover, China appears to be gearing up to increasingly confront demonstrators head-on. Two senior generals recently pledged to further augment the already one-million-strong People’s Armed Police (PAP), the paramilitary force charged with maintaining domestic social order. A top official in China’s Ministry of Public Security quickly followed up the generals’ statements by saying that China is preparing to “strike hard” against internal civil strife. Such comments do not augur well for the poor, oppressed masses.

What betrays Hu’s hardliner credentials most egregiously is his iron grip on state-run media and telecommunications. Beijing has compelled – one by

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<sup>7</sup> In early December 2005, up to 30 protesting villagers were reportedly shot dead by police in Dongzhou, a small town near Hong Kong. The villagers were protesting the confiscation of their land for the construction of a windmill farm. If the villagers’ claim regarding the number of casualties is accurate, the Dongzhou incident is China’s bloodiest crackdown since the Tiananmen Square massacre in 1989.

On 14 January 2006, another land-related protest in Guangdong in which 2,000 electric baton-wielding policemen attacked up to 20,000 demonstrators, resulted in scores of serious injuries. A 13 year-old girl was reportedly clubbed to death in the incident.

<sup>8</sup> Here I am referring to authorities’ sealing off villages where unrest has occurred and rounding up agitators, information control, pay-offs to families of victims of police brutality to stay silent or lie about the circumstances of a relative’s death, etc.

one – even U.S.-based high-tech giants like Microsoft, Yahoo!,<sup>9</sup> Cisco, and Google<sup>10</sup> to assist the central government in censoring Internet content in China. Blogs and other on-line message boards, cell phone calls and text messages, and email are routinely monitored by authorities. 200 million Chinese must provide proof of identity before purchasing even prepaid cell phone cards.

As the world's leading jailer of journalists for the seventh consecutive year (32 journalists and 62 “cyber-dissidents” are currently locked up), China's suppression of the media, especially the state-run variety, is extreme. The sacking of outspoken editors,<sup>11</sup> the shutdown of progressive publications, and the jailing of journalists have all intensified on Hu's watch.

The government's strict policing of speech and expression has also affected many NGOs, lawyers, professors, dissidents, and other potentially outspoken parties. The idea is to prevent disenchanted individuals or groups from linking up to form grass-roots networks, or to otherwise become empowered in airing their grievances or challenging authorities. Of course, media blackouts and other methods of information control also serve to prevent civil disobedience “wildfires” from spreading.

Such draconian measures present a Catch-22 to the Chinese government, one that tests the political savvy of a leadership steeped in the culture of totalitarianism. That is, the short-term stabilizing effect that information control has on China's masses also feeds the instability problem in the long-term. Information control as a means to sustaining political power is an addictive enterprise; its narcotic expediency demands that unpopular autocrats use it again and again. Predictably, the problem (e.g., social unrest) will eventually fester beyond what suppression can solve due in large part to suppressive tactics in the first place (as is increasingly the case in China); on the other hand, quitting those tactics cold turkey could very well lead to an utter breakdown. Hence, the powers that be are compelled to continue

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<sup>9</sup> According to the Washington Post, Yahoo! disclosed to the Chinese government the name of a China-based Yahoo! user (Shi Tao) who was sending out sensitive emails. Shi is presently serving a 10-year prison term of hard labor.

<sup>10</sup> In the same week that Google finally succumbed to Chinese pressure to obey the nation's propaganda chiefs, a respected news weekly attached to *China Youth Daily* was shut down; the weekly's corresponding blog was also shut down. (The editor vowed to fight the crackdown in a circulated letter.) Additionally, a journalist was jailed for reporting on an outbreak of dengue fever in Fujian Province.

<sup>11</sup> In December 2005, authorities sacked the chief editor of the popular *Beijing News*, triggering a rare walkout of the paper's reporters. The clampdown on the forthright newspaper came in the wake of its reporting on a bloody crackdown on protesting farmers in Hebei Province in June.

availing themselves of their old sticks, which in turn exacerbates the underlying problem.

Media clampdowns are a case in point. Ideally, the role of journalism is to serve as an independent supervisory mechanism in society, putting into focus specific problems that call for government intervention. At the very crossroads where the Chinese government truly needs the eyes and ears of reporters to better understand the nation's problems, it is increasingly plugging those ears and veiling those eyes. The result is that when authorities finally become fully aware of a problem, it is because 20,000 rioting villagers told them so.

History has shown us that a centrally planned economy does not work. A government simply cannot effectively manage all aspects of a national economy; it needs to rely heavily on the self-adjusting tendency of market capitalism. Chinese leaders understand this lesson well. However, just as a government cannot single-handedly manage something as big and complex as the fourth largest economy, so it is unable to independently oversee a society of 1.3 billion people. Political liberalization (i.e., relying on the stabilizing effect of democratic forces on society) is the next step in China's evolution on the heels of economic liberalization, and the time is ripe. Consider what New York Times columnist and Pulitzer Prize-winner Thomas Friedman wrote in his bestselling book, *The World is Flat*:

[China] will soon be reaching a point where its ambitions for economic growth will require more political reform. *China will never root out corruption without a free press and active civil society institutions.* It can never really become efficient without a more codified rule of law. It will never be able to deal with the inevitable downturns in its economy without a more open political system that allows people to vent their grievances. To put it another way, China will never be truly flat<sup>12</sup> until it gets over that huge speed bump called "political reform." (p.126, emphasis mine)

Obviously, Chinese leadership is not going to endorse political pluralism for the foreseeable future. What *is* conceivable, however, is their *weaning* themselves off of strict information control. Gradually loosening media controls is a necessary and reasonable step in appeasing the rural masses. This is because such a step not only allows journalism to grow into its role as society's biggest watchdog, but also does not threaten the party's

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<sup>12</sup> Friedman's use of the term "flat" refers to integration with the global, knowledge-based economy.

monopoly on power. In fact, using journalism to funnel in more information regarding specific problems, and then acting on that information in a timely fashion, is sure to strengthen the party's grip on power. Of course, the key to reaping the benefits of a freer press without inviting disaster is to strike a balance between excessive information control and not enough control, which would certainly open the proverbial floodgates.

In light of the fact that unrest is trending upward at an alarming rate, Hu must add more carrots to his mixed bag – particularly in the period before the effects of his rural investment programs take hold – if he seeks to keep his country from imploding. However, Hu is *not* adding more carrots like a freer press, which is why the social unrest problem is quickly worsening, even as the government rolls out the riot squads and beefs up its Big Brother apparatus. Even official Chinese statistics show that these sticks are *not* solving the problem in the long-term.

Given Hu's failure to use all the necessary tools at his disposal in reversing civil strife trends, we can expect higher levels of social unrest in 2006. Disregard for a moment that peasants regularly fall victim to land-grabbing state enterprises. Peasants oftentimes do not even have access to clean drinking water. According to official Chinese statistics, 300,000 people in China regularly drink contaminated water, and 9 out of 10 Chinese cities rely on polluted groundwater. Furthermore, rural health care is woefully inadequate and local authorities are notorious for indiscriminately levying taxes on farmers. The disconnect between central and local authorities is well known – Beijing oftentimes cannot rely on local government to carry out its bidding, which is another reason why policymakers need to exploit the ubiquitous eyes and ears of the media.

The steady erosion of public safety and political stability has become the centerpiece issue in recent security analyses of China. Multinationals should take extra precautions when visiting China, especially in light of other alarming indicators. For example, China has beat out Columbia to become the world's premier kidnapping country, with the most common targets being celebrities and businessmen, or their families.

In short, China is quickly becoming a much less safe place to do business, and, as long as Beijing continues to handicap itself in addressing the deteriorating security situation, the problem will get worse in this Year of the Dog.

#### 4. Technical Issues — Specialized spyware developers

There is still a perception that spyware and viruses are done by kids for misguided fun. While this might have been the case in the dim past, creation of malware has become a criminal enterprise whose goal is profit, not annoyance.

In one recent incident, (<http://www.haaretzdaily.com/hasen/spages/676644.html>), a Trojan horse was developed and sold to unethical private investigators in Israel, who in turn put the software to use for their commercial clients, with the goal being to harvest information from the computers of their competitors. As is common, the machines could be infected either by someone opening an e-mail attachment, or through use of an infected diskette.

While e-mail is the easiest way to install rogue software, it is also the least reliable, as it requires the victim to open the infected attachment.

This can be made more difficult still if the company makes its anti-virus efforts automatic and foolproof. Unfortunately, experience tells us that no matter how foolproof you can make something, someone else can make a bigger and better fool. Thus, conventional wisdom tells us that when a computer vulnerability is recognized, and a patch created, a third of the world's users will install the patch within 30 days, a third will install the patch within six months, and a third will never install the patch. And while common sense tells us that we shouldn't open an attachment from an unknown user just because it says it will show something related to sex, a lot of people – our bigger and better fools – will nonetheless open it.

Even if you know the person sending the attachment, some measure of caution is desirable. We recently received an e-mail that had a suspicious attachment from a person known to us. We picked up the phone and called them. They hadn't sent it, so we deleted it on the server before downloading.

Using infected physical media is more reliable, but does require access to the physical computers. In many places this is way less difficult than you might expect. How carefully, for example, do you vet your cleaning staff? Often you only need to infect one computer, and have it spread through the network looking for specific types of information.

You are more at risk if others use your computer. We will periodically have some visitor use our machines to get their Web mail, or use the Internet for something or other. We *always* run virus and spyware scans when they are through, and, if they choose to use Internet Explorer, we *almost always* discover spyware that needs to be deleted.

## **5. Real Stories from the Field — Pay Stub Extreme Income Makeover Better than an AmEx Platinum Card stapled to your forehead**

Several Internet companies are offering “novelty pay check stubs” for, of course, entertainment purposes only.

For \$89.95 you can buy a fake paycheck stub on-line that will fool anyone, according to the company that sells them. The paychecks are realistic enough to include the trademark of ADP, a major provider of payroll services to employers. ADP is ticked off to say the least. In fact, ADP has sued the site for trademark infringement in a San Jose, California court. The Associated Press and a number of newspapers have written about the suit.

The fake pay stub site has also drawn complaints from industry watchdogs who aren't buying the company's claim that its fake paychecks are meant merely to fool your spouse, or impress your neighbors, or for a loser to get a fake paycheck stub to impress a date. We can just hear the mope now: “Hiya babe.Wanna see my stub?”

Unfortunately, that same loser is going to use that same fake paycheck stub to get credit and rip-off the credit grantor, and will use it as proof of gainful employments to rent an apartment, and will use it to prove to their probation officer that they are making a real living (while still selling illegal Canadian Lipitor in retirement centers).

While the Tampa-based Internet business mentioned in the article may not last long, imitators will spring up all over the world. According to statistics we found, there were on average over 15,000 daily click-throughs to the order page in November, December, and January. Now that's the type of traffic that can generate a real, attractive, pay stub!

The only real protection against fraud involving fake paychecks is direct contact with the employer that supposedly issued the paycheck.

## **6. Book and Product Reviews**

### *Corporate Crime*

Marshall Clinard and Peter Yeager

Transaction Publishers ISBN: 1-4128-0493-0 435 pages \$34.95?

<http://www.transactionpub.com/1-732-445-1245>

This is a re-issue of an interesting book that was originally published in 1980. It includes a new introduction. It is not a light read for a quick review of the field, but, rather, a thoughtful look at what has come before in terms of analysis and corporate crime studies, what is now and what the future holds.

It takes a very good look at what the crimes are, as well as the regulatory approach to “reporting to stop crime” (They offer the industry rebuttal of the waste of time and paper, and the real cost of crime direct and indirect.

It is interesting to note that most corporate crime goes unpunished. When punished, it is mostly done an administrative level, with very few cases actually reaching the courts.

The book is well written. If we have a criticism, it is in the perspective of the authors. They are professors and have not (to our knowledge) run companies. Nor have they investigated corporate crime, as we do. It thus lacks that “hands on” approach one get from dealing with corporate crime and fraud, and shows its academic roots. This is not in itself a bad thing, and *Corporate Crime* remains a good buy and a good read.

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