

IN THE NEWS

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IT Security

Many Government users rely on Blackberry wireless handheld devices for email communications. Research in Motion, makers of the Blackberry, released a software patch to prevent hackers from sending malicious code in PDF files [1]. At the Department of State, apparently there was a reply to all email problem that nearly shut down the mail system [2]. Next to the Department of Treasury, where a GAO report cited security weaknesses in the Internal Revenue Service (IRS) electronic tax filing program [3]. The Treasury Inspector General (IG) for Tax Administration claims the IRS Modernized e-File System was implemented with known security vulnerabilities [4]. The Treasury IG believes the lack of attention to security resulted from other business requirements [5]. The GAO report comes three months after the IG reported major security vulnerabilities in two IRS systems [6]. Elsewhere in the Government, the Department of Homeland security (DHS) plans to quadruple its research investment for digitally signed router updating [7].

In an unusual twist, Russian hackers added congratulatory comments in a new malicious program addressed to Microsoft for quickly responding to a previous exploit [8]. As new software is developed, security controls often must be upgraded. For example, users testing the new Microsoft Windows beta version have discovered some anti-virus software no longer works [9]. Additionally, Microsoft released a security patch to correct a problem with the Server Message Block (SMB) Protocol that could allow hackers to launch malicious code [10]. In other news, the new Conficker Worm allows a hacker remote control over an infected computer [11]. Computers that have not applied the October Microsoft MS08-067 patch are vulnerable to infection [12]. Currently the worm is spreading rapidly increasing from 2.4 million to 8.9 million machines in four days time [13].

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Economic News

In Florida, a hedge fund manager accused of defrauding investors out of millions has gone missing [1]. Investors worry that the fund's \$350 million has disappeared along with the manager [2]. Elsewhere in Florida an Indiana fraud suspect remains hospitalized after faking his death in a plane crash and attempting a getaway on a red motorcycle [3].

Two banks became the first shuttered this year; the National Bank of Commerce in Illinois and Bank of Clark County in Washington state [4]. The once largest U.S. bank, Citigroup, is under

renewed financial stress. For example, the company plans to separate US consumer finance and securities businesses from its global commercial banking operations [5]. Earlier in the week Citi announced the end to its one-stop financial services

billion loss, Citigroup will split into two pieces; Citi Holdings and Citicorp [7]. Overseas investors, including those investing in Citi, have lost considerable wealth due to the economic downturn. For example, one estimate of Arab country losses for the past four months



shopping by selling off Smith Barney for \$2.7 billion [6]. After reporting an \$8.29

is placed at \$2.5 trillion [8]. Meanwhile, the Bank of Amer-

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Special points of interest:

- \$350 million hedge fund manager missing in Florida
- Minneapolis Star files for Chapter 11 bankruptcy
- 2009 starts with 2 banks closed

IT Security

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2. Lee, Mathew, AP, *Reply-all e-mail storm hits State*, January 10, 2009.
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5. Krebs, Brian, Washington Post, *Reports Show Business and Taxpayer Data Still at Security Risk*, January 15, 2009.
6. Vijayan, Jaikumar, *Computer World, Taxpayer data at IRS remains vulnerable*, GAO warns, January 13, 2009.
7. Marsan, Carolyn Duffy, *Network World, U.S. plots major upgrade to Internet router security*, January 15, 2009.
8. PC World, *Hacker Leaves Message for Microsoft in Trojan Code*, January 12, 2009.
9. PC World, *Windows 7 Beta Fights with Antivirus Programs*, January 12, 2009.
10. Hoffman, Stefanie, Channel Web, *Microsoft Issues One Critical Fix For Patch Tuesday*, January 13, 2009.
11. Larkin, Erik, *PC world, Protecting Against the Rampant Conficker Worm*, January 16, 2009.
12. Claburn, Thomas, *Information Week, Nearly 9 Million PCs Hit By 'Downandup' Worm*, January 16, 2009.
13. Krebs, Brian, *Washington Post, Tricky Windows Worm Wallops Millions*, January 16, 2009.

Economic News

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ica (BoFA) reported its first loss in 18 years [9]. In addition, BoFA is receiving an additional \$20 billion in Government aid [10].

The second biggest consumer electronics chain, Circuit City, will liquidate its 567 U.S. stores [11]. The company was in Chapter 11 bankruptcy but could not overcome the economic downturn. The Federal bankruptcy judge Kevin Huennkens approved the liquidation of the company [12].

On the plus side, the IRS plans to cut some slack for taxpayers facing economic hardships [13]. With corporate profits down, unemployment increasing, and home foreclosures on the rise, expect tax revenues to decrease. This will necessitate changes throughout the Government.

1. Laboy, Suzette, AP, *Police*

probe Fla. fraud claim, missing fund leader, January 17, 2009.

2. Moore, Tina, *New York Daily News, Another Bernard Madoff: Hedge-fund manager Arthur Nadel vanishes with \$350 million of clients' cash*, January 17, 2009.
3. Jarosz, Francesca, and Swiatek, Jeff, *Indianapolis Star, Fraud suspect remains in Florida hospital*, January 16, 2009.
4. CNN Money, *First bank failures of '09*, January 16, 2009.
5. Guerrera, Francesco, *Financial Times, Citigroup moves towards break-up*, January 13, 2009.
6. Read, Madlen, and Lepro, Sara, AP, *Death knell for Citigroup's 'supermarket' model*, January 14, 2009.
7. AP, *More red ink for Citigroup*, Bank of America, January 16, 2009.
8. Fattah, Zainab, and Hall, Camilla, *Bloomberg, Arab States Lost \$2.5 Trillion as a Result of Crisis*, January 17, 2009.
9. Hamilton, Walter, and Reckard, E. Scott, *Los Angeles Times, Bank shares plunge on fresh losses*, January 17, 2009.
10. Merle, Renae, *Washington Post, Losses, Layoffs Pile Up, but Stocks Gain*, January 17, 2009.
11. Felberbaum, Michael, and Tong, Vinnee, AP, *Circuit City to liquidate remaining US stores*, January 16, 2009.
12. UPI, *Bankruptcy judge unplugs Circuit City*, January 16, 2009.
13. Ambrose, Eileen, *Baltimore Sun, IRS cuts some slack for those facing hardships*, January 17, 2009.

*Good bankers, like good tea,
can only be appreciated when
they are in hot water—Jaffar
Hussein*

News Paradigm Shift

Technology advances are constantly changing the way business is conducted. In the process, newspapers continue to be pressured from lower circulation and advertising revenues. Case in point, the Minneapolis Star, the 15th largest U.S. newspaper, has filed for Chapter 11 bankruptcy [1]. Chapter 11 is used for companies that plan to emerge from bankruptcy and continue operating.

The Chicago Tribune also filed for Chapter 11 bankruptcy [2]. Moreover, the Seattle Post-Intelligencer is for sale [3]. If a buyer cannot be found within the next 2 months, the Seattle newspaper will close [4]. This follows the announced plan to sell the Rocky Mountain News [5]. Concurrently, the Tucson Citizen is up for sale and if there are no buyers by March 21, the paper will close [6].



As people get more or their news from the Internet, the quality may be diminished. For example, during 2008, a person posted a bogus story that Steve Jobs suffered a heart attack; news that drove Apple stock to a 52 week low [7]. Likewise, bogus stories regarding Bear Sterns, Lehman Brothers, and IndyMac resulted in staggering losses that fueled, if not started, the current financial recession.

1. MacMillan, Robert, Reuters, *Minneapolis Star Tribune in bankruptcy filing*, January 16, 2009.

2. Oneal, Michael, Los Angeles Times, *Bankruptcy judge OKs Tribune's short-term financing plan*, January 16, 2009.
3. The Seattle Times, KING-TV: *Seattle P-I for sale, could close*, January 8, 2009.
4. Friedman, Jon, Market Watch, *Reporter Andrea James could use a new job*, January 16, 2009.
5. Tsai, Catherine, AP, *Scripps mum on any interest in Rocky Mountain News*, January 16, 2009.
6. Winter, Michael, USA Today, *'Tucson Citizen' up for sale; will close if no buyer found by March*, January 16, 2009.
7. Goldman, Jim, CNBC, *Latest Jobs' Health Rumor: It's NOT True He Had Heart Attack*, October 3, 2008.

Never trust a computer you can't throw out a window—

Steve Wozniak

Madoff

Arguably the largest Ponzi scheme in U.S. history, Madoff, highlights the difficulty in detecting white collar crimes. It is estimated that the losses from this one fraud equal three years of all property crime (every larceny, burglary, and auto theft) [1]. So how could one fraud go on for so long? Each month, investors received a detailed statement itemizing alleged investments made [2]. For example, one investor's monthly statement listed Madoff investments in Fidelity funds that Fidelity claims never happened [3]. Indeed, it appears that the Madoff fund never made any trades [4]. So the fraud was planned from the start.

For those investors (victims)

that received money from the Madoff fund, they may be required to repay what was given to them [5]. So a victim may have to cash out assets at the current depressed prices in order to repay dividends received from the fraudulent Ponzi scheme. In covering losses, Madoff's investment firm is likely to fetch no more than \$10 million [6].

1. Burns, Scott, Boston Globe, *Are Madoff's alleged crimes the financial equivalent of murder? Many think so*, January 16, 2009.
2. Szep, Jason, Reuters, *Madoff's fund may not have made a single trade*, January 16, 2009.
3. Gordon, Marcy, AP, *Madoff fund may have made no*



trades, January 16, 2009.

4. Quinn, James, The Telegraph (UK), *Bernard Madoff's investment fund 'never traded'*, January 16, 2009.
5. Bernstein, James, Newsday, *Madoff investors may have to pay back money spent*, January 16, 2009.
6. Ortega, Edgar, and Sandler, Linda, Bloomberg, *Madoff Brokerage May Fetch No More Than \$10 Million*, January 16, 2009.

Tension between India and Pakistan remain high following the terrorist attack on Mumbai. Responding to Indian criticism, Pakistan vows to conduct a transparent inquiry into attacks [1]. Indian sources suggest that Pakistan has acknowledged complicity of Pakistani elements [2]. Meanwhile, Pakistan has given its investigators just 10 days to complete their inquiries into the Mumbai terror attacks [3]. With over a billion people, it should come as no surprise that China has more Internet users than does the US. Case in point, China now has 298 million Web users versus

223.1 million in the US [4]. During 2008, the growth in Chinese Web users was 41.9% [5]. Meanwhile, in 2007, China passed Germany to become the third largest economy in the world [6]. In a twist, Congress will start hearings in February 17 to examine China's role and response to the world financial crisis [7].

1. Reuters, *Pakistan promises transparent inquiry over Mumbai*, January 16, 2009.
2. The Times of India, *Pakistan concedes India has got proof against Pakistan nationals*, January 17, 2009.
3. Shahzad, Asif, AP, *Pakistan: 10 days for Mumbai attack investigation*, January 17, 2009.

4. AP, *China's population of Web users hits 298 million*, January 13, 2009.
5. Wauters, Robin, *Washington Post, Meanwhile, Internet Usage In China Still Booming*, January 14, 2009.
6. McDonald, Joe, AP, *China raises '07 economic growth, passing Germany*, January 14, 2009.
7. Goodwin, Jacob, GSN, *Hearing in DC on Feb. 17 on China's link to the financial crisis*, January 13, 2009.

Crime Report

While Bernie Madoff may have operated the most successful Ponzi scheme yet uncovered, he is not the only fraudster using this exploit. For example, in Pennsylvania, a man was sentenced to 8 years for a \$5 million Ponzi scheme [7]. In Syracuse, New York, Federal prosecutors accused a man of running a \$17 million Ponzi scheme [8]. In Georgia, a currency investor was charged by the SEC of operating a \$25 million Ponzi scheme [9].

1. Chunovic, Louis, GCN, *West Point employee charged in nearly \$3 million IT security embezzlement scheme*, January 15, 2009.
2. Easley, Hema, *Lower Hudson Valley Journal News*, *Woman charged with embezzling \$3 million at West Point*, January 16, 2009.
3. Pignataro, T. J., *The Buffalo News*, *Derby man charged in bank fraud*, January 17, 2009.

4. Perez, Erica, *Milwaukee Journal Sentinel*, *Green Bay businessman gets six years in prison in fraud case*, January 17, 2009.
5. DeVoe, Monique, *The Arizona Republic*, *Man held in \$2.5M fraud convicted in California*, January 16, 2009.
6. Walsh, James, *Star Tribune*, *St. Paul man pleads guilty in fraud scheme*, January 16, 2009.
7. Brubaker, Harold, *The Philadelphia Inquirer*, *Montco man gets 8 years for Ponzi scheme*, January 16, 2009.
8. Gadoua, Renee K. *USA Today*, *Man accused of running Ponzi scheme in Catholic newspapers*, January 17, 2009.
9. Scheer, David, and Davidson, Laurence, *Viele, Bloomberg*, *Georgia Firm Accused of Ponzi Scam Before Stock Sale*, January 15, 2009.

A man will be imprisoned in a room with a door that's unlocked and opens inwards; as long as it does not occur to him to pull rather than push—Ludwig Wittgenstein

At the West Point Military Academy, a woman was arrested for a scheme to defraud the U.S. Government out of nearly \$3 million [1]. The woman is accused of using Government purchase cards to make payments to CWG Enterprises for training that was never received [2]. We often limit our thinking of counterfeiting to paper bills. However, there are cases where people try to mint their own coins. Case in point, a man accused of passing privately minted coins at a Buffalo Sabres game is now the suspect in a federal bank fraud case [3].

Fraud continues to make the headlines. For example, in Wisconsin, a former business man was sentenced to 6 years in prison for fraud in excess of \$1.5 million [4]. In California, a man was convicted of a \$2.5 million fraud [5]. In Minnesota, a man pleaded guilty to real estate fraud totaling \$4 million [6].