

PART I

WHEN FRAUD IS COMMITTED

Reading the headlines about another fraudulent scam is upsetting on many levels. When the story is one in which the money stolen is in the billions—and thus beyond conceptualization for the average person, who never crosses paths with such large sums—the media accounts stoke rage and provoke calls for justice.

In the allied professions of management and accounting, similar feelings are aroused. Such outrage is more complex in reality and includes feelings of betrayal by peers, colleagues, or even management or capitalist heroes. Legislatures are called upon, grand speeches are delivered, and references are made to times when people were honest, a man earned a living with his hands, and communities (and markets) were based on trust.

In the end, the widespread loss of trust, personal and corporate reputations, and market confidence is the greatest casualty of a catastrophic fraud.

As more and more resources are put into addressing the problem of fraud, sometimes it just looks as though too little is being done too late, and at other times the efforts don't seem to make a dent at all. The fraud problem simply seems to be increasing in scope and

frequency, and newspaper headlines continue to highlight how the last major financial loss has just been surpassed by the most recent.

Consider this curious case of theft. A man named Arthur “the Brain” Rachel gained notoriety for stealing the 45-carat Marlborough diamond from a London jewelry store three decades ago. He was sentenced in 2012 to eight and a half years in prison for racketeering. He had already served many years in jail for other crimes, and he was 73 years old when he received this sentence. When the judge announced the sentence, he asked Rachel why he continued to commit crimes after so many years in prison. Rachel reportedly replied that he and his comrades were bored and had nothing better to do.¹

Fraud is theft, and it is often explained in the media as being motivated by greed. For instance, Pedro Espada Jr., a former New York State senator recently convicted of tax evasion and stealing from a health care network he founded, truly had a “rags-to-ill-gotten-riches” story. He survived homelessness in his youth to rise to the highest echelons of state government and brazenly abused his position, perhaps motivated by greed. Before he was indicted, Espada remarked, “There’s no way there’s a chapter in this story that includes me going to jail. . . . It’s surreal. Not a part of my plan or my script.” Commenting on his grandiose sense of entitlement, Eastern District of New York U.S. attorney Loretta E. Lynch called him a “thief in a suit.” She concluded, “Pedro Espada Jr. could have chosen the high road. Every time he had a choice, Pedro Espada chose himself.”²

In contrast, as noted earlier, Arthur Rachel stole items of immense value, but he was not motivated by greed. In both of these cases, might criminal investigations and psychology shine a new and more brilliant light on fraud motivations to broaden and deepen our understanding?³

Beyond the solutions currently applied, new ones are needed. With personal computers becoming popular in the 1980s, computer crime (including hacking) also flourished. This naturally led to the new field of computer forensics viz., forensic methods of examining digital media for identifying, preserving, recovering, analyzing, and presenting facts and opinions, which collectively constitute electronic evidence. Financial forensics has made impressive gains and is also rapidly evolving as a specialized discipline. Financial forensics refers to the plethora of tools, techniques, methods, and methodologies—with a primary focus on analysis and surgically precise dissection of

numbers and scenarios—applicable to virtually any large or small economic or financial matter, whether civil, criminal, or involving dispute.⁴ With the rising incidence of fraud and the realization that fraud is committed by sentient human beings, there is an urgent need for the field of behavioral forensics to exploit the insights of the behavioral disciplines to understand, address, and respond to fraud and perhaps even preempt it.

To understand how fraud happens, new thinking is required to answer this simple question: Why do people commit fraud?

Notes

1. “Jail for Chicago’s ‘Brain’ in Racketeering Case,” *Wall Street Journal*, June 8, 2012.
2. Mosi Secret, “Ex-Legislator Guilty of Theft Gets 5-Year Prison Sentence,” *New York Times*, June 15, 2013.
3. For instance, psychologist Michael Apter argues that it is to keep boredom at bay that youths in wolf packs engage in the practice of “wilding”—an expression that seems to mean “being wild for its own sake,” or being violent. He proceeds to ask, “But how is it that hurting others can produce thrills?” See Michael J. Apter, *Danger: Our Quest for Excitement* (Oxford, UK: One World Publications, 2007), 6. We will discuss some of Apter’s theories later in this book.
4. D. D. Dorrell and G. A. Gadawski, *Financial Forensics Body of Knowledge* (Hoboken, NJ: John Wiley & Sons, 2012).

CHAPTER 1

Fraud Is Everywhere

Fraud is an interesting concept, because it is both so common and so serious. Fraud is generally everywhere around us; most people do something fraudulent, unwittingly or not, in their lifetimes.

Even such an innocuous thing as two employees chatting for a few minutes in the workplace about last night's baseball game can be a minor form of fraud. After all, they are on company property and are being paid to do other things. Assuming that they are being paid for their time, and that biological needs as well as needs for breaks are provided—many professional service firms bill by the hour—they are defrauding their employer if they are aware that they should be working rather than talking.¹

This example may be considered a small infraction, and few people would think of it as fraud, but it could become so, depending on the degree. Association of Certified Fraud Examiners (ACFE) founder and chairman Joseph Wells wrote in the prologue to his autobiography, "Everyone [has lied]. Everyone. We do so for two basic reasons: either to receive rewards or to avoid punishment (or a combination of both). Although lying is not endemic to the human species, we learn it very early in life. Fraud, though, is a lie with a special twist—it is committed to deprive an innocent victim of money or property."²

Of course, in cases of revenge fraud, the victim may not be so innocent after all.

The Pervasiveness of Fraud

If you ask a room full of midcareer professionals whether they have committed a crime in the past week, almost no one will respond (and perhaps understandably so). Some will be offended by the very nature of the question. But if you then ask them whether they drove just one mile over the speed limit in the past week, they will become sheepish.

“Of course,” they will reply, “but it was only a couple of miles an hour. The cops don’t care.” That may be true, but legally speaking, it is a violation of well-understood traffic laws—and therefore a crime. In most cases it may be unintentional (speedometers tend to be subject to margins of error), but in cases of reckless driving, intentional violation of traffic laws unambiguously makes it a crime.

Tom Tyler, Macklin Fleming Professor of law and a professor of psychology at Yale Law School, provides two useful perspectives on legal compliance. The first is the *instrumental perspective*, wherein he argues that people who take this view obey the law because they fear punishment. The second is the *normative perspective*, wherein people who believe in social norms and perceptions around equity and fairness feel morally obliged to comply with the law, regardless of the fear of punishment.³ Authorities prefer that citizens hold the normative perspective because it removes the need for law enforcement. Nevertheless, it must be pointed out that people espousing the normative perspective may still decide not to pay their taxes if they believe the tax authorities are unjust. As for those holding the instrumental perspective, their decision primarily relies on weighing the pros and cons of compliance with the law. Stricter enforcement is the only way to dissuade such people from breaking the law.

Fraud, in various small ways, is so common we cease to recognize it. It is just the way people are. It is the normal course of human behavior. Distinguished behavioral economist Dan Ariely makes compelling arguments to provide answers to the following unsettled questions:

- Does the chance of getting caught affect how likely we are to cheat?
- How do companies pave the way for dishonesty?
- Does collaboration make us more honest or less so?⁴

More than three decades ago, sociologists Edwin H. Sutherland and Donald Ray Cressey offered the “differential association principle” as an explanation for why people act this way. They argued that “people violate the law because the world, the nation, and even the family have multiple moralities.” Consequently, subjectivity and contextual interpretation make “learning to behave in terms of a morality which could land you in jail . . . as easy as learning how to drive your car faster than 55 miles an hour.”⁵ They concluded that we can only persuade people to follow the right course of action especially true for those people who adopt the instrumental perspective when deciding whether to obey the law.

David Saunders of the Behavioral Sciences Department of Mathtech, a strategy and consulting services firm, asserted that management fraud can be thought of as a “perversion of effective management behavior”—of executives turning to the dark side. He persuasively described the resulting scenario as follows:

Nobody would deny that our system of economic incentives rewards imagination applied in the pursuit of profit, and that it rewards managers who exploit profit opportunities. Nobody would deny that this should be so. Yet this often has the effect of encouraging managers to operate as closely as possible to the borderline between legality and illegality—the borderline between what is ethical and what is unethical. And it follows, in turn, that for any of a variety of reasons, an individual manager or management group may *cross over the line* [emphasis added].⁶

Former Securities and Exchange Commission (SEC) chairman Arthur Levitt echoed these ideas in a 1998 speech titled “Numbers Game” delivered at New York University:

[Too] many corporate managers, auditors, and analysts are participants in a game of nods and winks. . . . Managing may be giving way to manipulation; integrity may be losing out to illusion . . . how difficult it is to hold the line on good practices when their competitors operate in the gray area between legitimacy and outright fraud. A gray area where the accounting is being perverted; where managers are cutting corners; and where earnings reports reflect the desires of management rather than the underlying financial performance of the company.⁷

On Making (Up) the Numbers

Many human beings use cosmetics to enhance their appearance—the color of their lips, skin, or hair—or to improve the way they smell. Cosmetics are also called *makeup*. To make up is to pretend, to create a false impression—to create a new reality, much as a child may create an invisible friend in the course of play. Misleading others by creating a false impression is called *apple polishing* for a fruit seller, *puffery* in advertising, and *window dressing* when used in financial statements that portray a rosier picture of the financial position than is warranted. Actor George Burns famously observed, “If you can fake sincerity, you’ve got it made.” Erving Goffman, probably the most influential twentieth-century sociologist, labeled this “self-presentation” by human beings as part of an elaborate game of “impression management.”⁸

One may think that considering such things is silly and a waste of time, but we are citing them to make a point. We all deceive to some degree and in some aspects of our lives. The question then becomes one of magnitude. There is certainly a huge difference between talking about last night’s baseball game on company time and crafting a scheme to defraud your employer of millions of dollars. Similarly, there is a big difference between fraudulent financial reporting (“cooking the books”) and theft and embezzlement. Explicitly considering these differences helps us to better understand the associated characteristics and statistics.

What are the possible psychological factors that cause some people to commit a big fraud? These fraudsters often seem normal in every way. They are married, loving parents, pillars of the community, active in civic and religious affairs, supporters of good causes, and pleasant to be around. Yet they can do terrible things.

Ken Friedman is a corporate attorney in Manhattan. When asked about who owns fraud risk in corporations, he replied, “When things are going well, nobody does. When the train runs off the tracks, *everybody does.*”⁹ This is in line with the quip that is humorously titled Zimmerman’s Law of Complaints: Nobody notices when things go right.

Consider the following historical facts:

- Enron used to be a wealthy and powerful company—the seventh largest in the United States, with more than \$100 billion in revenue.

- Arthur Andersen used to be a premier accounting firm, widely regarded as the “gold standard” in the auditing profession.
- WorldCom was a mammoth telephone services provider, among other sprawling interests.

There were many other companies like these, besides the Silicon Valley technology companies preceding the dot-com crash of 2000–2001, in what is sometimes called the Enron era.

Thousands of people worked in these organizations. When they collapsed, pensions were wiped out, investments were lost, reputations were damaged, and various civil and criminal legal actions were set in motion. Pretty much everyone shared the pain because of the actions of a relative few—who probably seemed normal in every way until the train ran off the tracks.

After the passage of the Sarbanes-Oxley Act in 2002 as a result of the Enron, WorldCom, and Arthur Andersen accounting scandals, we all thought that we had a comprehensive regulatory fix. Soon after the 2002 wake-up call, Leonard Sayles and Cynthia Smith presented their well-researched views on how corporate America was on a dangerous course:

- **How the tail started wagging the dog.** The unanticipated consequences of large-scale executive stock ownership.
- **The technology of deceit.** How information technology makes abuse easier to execute and easier to hide.
- **The silence of the lambs.** How the media and academia contribute to the problem.
- **The mythic executive.** Overwhelming greed, excessive compensation, and feet of clay.¹⁰

Indeed, the inner workings of corporate America had been shockingly revealed in the Enron and WorldCom scandals. Leading business journalist Roger Lowenstein, who previously reported for the *Wall Street Journal*, made the analogy that it is “as if an attic trapdoor had been flung open exposing the family’s supposedly demented aunt, and all of her cousins, nieces, and nephews had seen a ghostly reflection of themselves.”¹¹

And then came the Wall Street financial meltdown of 2008. The Lehman Brothers collapse, in the amount of \$759 billion, alone dwarfed what happened at Enron and WorldCom by ten times.

Moreover, we still do not have any major developments around culpability. The argument seems to be that because so many “bad actors” were involved, it is unfair to single out any particular group, be they bankers, lawyers, accountants, or even politicians.

For instance, a 2012 Rand Corporation study found that hedge funds did not appear to have been a primary cause of the Wall Street financial crisis. In 2011, however, the Financial Crisis Inquiry Commission, concluding that the meltdown could have been avoided, did point to “reckless” Wall Street firms and “weak” regulators as the primary drivers of the financial crisis.¹²

The hugely controversial Dodd-Frank Act of 2010 has been passed, but do we really believe that legislation can prevent fraud? If the collapse was about a corrosive Wall Street culture, then won't it happen again?

This book seeks to address the fact that the devastating outcomes of accounting scandals and massive frauds affect pretty much everyone: boards of directors, audit committees, C-suite executives, internal and external auditors, regulators, investors, employees and their families, and local communities. The damage can be both immense and long-lasting. So we are inevitably led back to these questions:

- Why does fraud happen?
- Could it have been prevented?

The latter question, while difficult, is perhaps the easier to answer. Internal and external controls, monitoring systems, due diligence, professional skepticism, and other mechanisms of corporate governance either failed or were overridden. Management override of internal controls as a critical risk factor has been recognized by the auditing profession and enshrined in professional guidance from the American Institute of Certified Public Accountants (AICPA). The guidance is particularly relevant for audit committees and refers to management override of internal controls as the “Achilles’ heel” of fraud prevention strategies.¹³

These corporate governance failures do not happen overnight. There are always warning signs. An analogy can be made to a person's health. We are supposed to get annual physicals because unlike the proverbial canary in the coal mine, very few people drop dead for no apparent reason. Doctors are trained to detect the early warning

signs and recommend actions to prevent them from leading to more serious consequences. So it is with corporate “health.”

In the financial train wrecks discussed here, the warning signs were certainly there, but they were ignored, overridden, or deliberately suppressed. Thus, it only *seemed* that when what appeared to be “once-great” organizations disappeared overnight, we can see that the warning signs were all there on closer inspection. For instance, the Hon. David M. Walker, former U.S. comptroller general and a former Arthur Andersen partner, made the following remarks:

The Andersen story illustrates how a few people can do the wrong thing with catastrophic consequences for many innocent parties. It was not long ago that Arthur Andersen was viewed by many as the premier professional services firm in the world. For years, Andersen had the reputation of “thinking straight and talking straight” and doing what it felt was right in connection with challenging accounting and reporting issues—even if the client didn’t like the answer. *From global gold standard to GONE in less than two years!* What happened? [emphasis added]¹⁴

The first question, why fraud happens, is the more difficult to answer, because it is there that we enter the realm of the human mind. Most of the people involved in these financial collapses were highly educated, experienced, and well paid. Yet in retrospect, they did things that seem foolish, if not criminal.¹⁵

We must begin to think of ways to monitor human behavior, to pick up warning signs before the disease becomes fatal, and to be able to take necessary action before a problem becomes too large. But this can be a tricky task.

A Slippery Slope

In the study of ethics, the idea of the slippery slope is fairly simple. It holds that a small infraction or indiscretion, if not detected and dealt with, will probably lead to even more serious infractions and indiscretions over time. There is an old saying among experienced antifraud professionals: “Did you ever hear of somebody stealing a million dollars and working their way down?”

All frauds tend to start small and get bigger with time. There is much speculation on why this occurs. You get used to the “free”

money. You take pride in having beaten the system. You believe a number of others are doing it and have yet to be caught. According to the *Report to the Nations* survey published by the ACFE, the average workplace fraud lasts about 18 months and gets bigger with time. These frauds are often detected because they simply become so large that they are too difficult to hide. From the *Report to the Nations* data, we also know that fraud perpetrated by senior management is 16 times as expensive as fraud perpetrated by an average employee. Generalizing, we can assert that the cost of fraud is a function of time as well as the position held by the fraud perpetrator(s).

We know that learning by imitation occurs in the area of ethics. That is, people learn to behave ethically by watching others. However, it turns out that people are more likely to accept others' unethical behavior when ethical degradation occurs slowly over time rather than in one abrupt shift. In terms of the psychological process underlying the slippery slope phenomenon, much of the effect occurs because people simply fail to notice minor violations and infractions, especially when they occur gradually.¹⁶

Imitating others serves an important social function: it improves interpersonal interactions by signaling that you are in sync with the others in your pace, posture, mannerisms, facial expressions, tone of voice, speech patterns, and other behaviors. Such social mimicry can be conscious or unconscious; it also is not limited to humans but extends to other mammals.¹⁷

There is another question just beneath the surface that the behavioral sciences have already uncovered: Why does fraud bother us so much?

For example, why is it that we are so disturbed by a theft by senior officers? From research on trauma victims, it is well-known that it is harder to understand, forgive, and adapt when we believe we have been wronged by another human being. When a natural disaster wipes out lives and causes the loss of hundreds of millions of dollars, we are not as troubled as when the loss results from dishonest human beings cheating others. It becomes a question of fairness, and the hardwired, human-primate tendency of inequity aversion is forcefully exhibited.¹⁸

Being a victim of a crime is one of the most unsettling of all traumas, and when the leaders of an institution are accomplices, it rocks us to the core. Similarly, there is a lot of discussion today about the growing vast disparity between C-suite and rank-and-file compensation.

Noting that compensation was most inflated at the higher levels of the investment banking organization, Roger Lowenstein remarked that CEO incentives were biased toward maximizing short-term profits. Concerning bankers, he observed, “Bankers who took home these enormous paychecks were crafty financiers, but their cleverness served their personal interests first, their clients and shareholders second, and the economy barely at all. The bankers learned to fool the system: to game the rating agencies, [fool] their compensation committees and society, [but] ultimately, the bankers fooled themselves.”¹⁹ Here are some actual compensation figures from company proxy reports: “In 2006, Ken Thompson earned \$18 million for his handiwork in acquiring Golden West; Daniel Mudd netted \$15 million from Fannie Mae; Angelo Mozilo, \$43 million at Countrywide; John Mack, \$41 million at Morgan Stanley; Lloyd Blankfein, \$55 million at Goldman; Richard Fuld, \$28 million at Lehman; and James Cayne, \$40 million at Bear Stearns.”²⁰

It is instructive to note that after 2006, each of the organizations named here was acquired because of financial distress, had to be bailed out, or is in conservatorship (Fannie Mae), or went bankrupt. So in retrospect, such excessive compensation packages seem to have only encouraged reckless, risk-taking behaviors. Certainly, the inflated compensation packages created a “false sense of entitlement and invincibility: If their personal fortunes were guaranteed, how could the fate of their institutions be otherwise?”²¹

From Slippery Slope to Broken Windows

Now let us return to the two employees discussing last night’s baseball game. Do we censure them immediately? Do we monitor employees’ phone calls to make sure they are not chatting about who is going to pick up Melissa after school? There are unresolved practical aspects of the slippery slope concept, but the theory has found strong advocates in law enforcement.

First promulgated in a magazine article about thirty years ago as the “broken windows theory,” the slippery slope concept has been modified and adapted over the years.²² It is widely credited with reducing crime rates, especially in major cities. The theory holds that if a window is broken in a building and not repaired, other windows in that neighborhood or community are likely to be broken. If they too are not repaired, more damage to the neighborhood is

likely to occur. As the neighborhood goes downhill, crime is likely to increase. The theory has been modified and adapted by various police departments over time, and it is often called community policing or quality-of-life policing.

Here is a case in point from the New York Police Department. For many years, New York City's vast subway system was a major scene of crime. Robberies, assaults, rapes, and even murders were not uncommon. The police responded in the normal manner. They put more uniformed officers in the stations and on the trains. They deployed undercover officers in civilian clothes on the trains. Nothing much changed, however. Then they came up with the "broken windows" approach. Most of the subway crimes were committed by young males, fare beaters, who would vault over the subway turnstile without using a subway token. The police put cops at the turnstiles and arrested the fare beaters. It was a fairly minor crime, but once the police started doing this, the crime rate as a whole dropped by well over 50 percent.

The police reduced the problem significantly not by studying the crimes but by studying the behavioral patterns of those committing the crimes. Thus, they affected the crime rate and kept the citizens safer.

Let us move from New York City and criminal issues to the organizations in which most of us work. Does someone seem to have a behavioral pattern of calling the same number each morning on a company phone and talking for an hour? Why? Is the person being called a customer? It would seem odd for this to happen every day. Is it Aunt Sally in Omaha? Does one salesperson always have expenses for "business lunches" that are 30 percent higher than their peers' expenses? If so, why?

The study of human behavior can be frustrating, because we all differ a bit. But it can also be quite helpful if insights from the behavioral sciences are used properly. As Michael Apter observed, "In some very real sense we are all different kinds of people at different times, with different needs, feelings, emotions, and ways of seeing things."²³ Hence, the theme of individual differences—of the different ways in which, and the degrees to which, individuals need, experience, and respond to situations is a critically important, underlying building block of behavioral forensics.

Social psychologist Kurt Lewin remarked, "Close cooperation between theoretical and applied psychology can be accomplished . . . if the theorist does not look toward applied problems with highbrow

aversion or with a fear of social problems, and if the applied psychologist realizes that there's nothing so practical as a good theory."²⁴

Fraud Is a Human Act

For our collective efforts on the problem of fraud to make progress, we need to understand human beings better. Specifically, despite our technophilia (i.e., love of computers), we should not rely solely on computers to provide solutions, for they too are built by humans.²⁵ Nor should we assume that once we take a technical solution to its highest refinement, we are done. A fuller comprehension requires that we appreciate the contributions of both the human being and the technology; this challenge requires an understanding of human beings, computers, and human-computer interactions.

Finance and accounting professionals seem to discount the value of the behavioral sciences; this explains why the field of behavioral finance is still in its infancy. For some reason, there is a perception that behavioral science is less than real science and has nothing to offer. This view is extremely unfortunate, because most fraudsters, as we will discuss in this book, are quite the applied psychologists. And, as is well-known, fraud is a crime in which the victim participates—voluntarily. We will present convincing arguments for why utilizing behavioral science insights is critically important to addressing the fraud problem, including developing defenses against being deceived.

Another misconception seems to be that greed is the root cause of fraud. In fact, we assert that greed as the sole explanation for fraud does little to advance our understanding of why a fraud occurred and what preemptive steps we can take to avoid fraud in the future. The right questions to ask about greed are the following:

- If there is something more than greed, what is it? What lies beyond greed outside our perception?
- If greed is the cause, what are the categories and variants?
- If fraud is practically infinite in its variety, how does greed interact with the personality and behavior of the fraudster?
- Most important, are there different gradations of greed? What is within bounds, and when is greed excessive? How can we tell the difference?
- How does the greed factor interact with group dynamics? How is it accentuated or constrained by social and cultural norms?

Conclusion

We possess some general knowledge about perpetrators and cost mostly from ACFE data from the biannual *Report to the Nations* (1996–2012). We know that the fraud committed by senior executives exceeds employee fraud by a factor of 16. We also know that given the exponential growth of technology, access, and computing powers, the opportunity for fraud will increase greatly (internationally). It is only when the river runs dry that the rocks begin to show. Hence, during a worldwide period of financial stagnation or decline, fraud incidence will only grow more rampant, with its economic effects becoming more visible.

In terms of the emotional costs (at a societal level), being defrauded is more upsetting than being a victim of natural disasters. This is because an act of fraud is humiliating for the victims: they conclude that “we were taken for fools” (consider the investors in Bernard Madoff’s Ponzi scheme).²⁶ Although a fraud can be a group or industry phenomenon, there are generally thought leaders or head honchos—specific individuals who make it happen, people of significant power or influence who either reside in or have inordinate influence over the C-suite; hence, it is ultimately a “tone from the top” issue.

Despite possessing this knowledge, we have not progressed far in ascribing motivation because of our blind eye to the relevance of the behavioral disciplines. In fact, we have made many assumptions that get in the way, such as rational markets, cognitive dissonance, the purity of the study of economics or finance, and, worst of all, that the behavioral disciplines do not matter, when in fact every fraud is perpetrated by people. Ultimately, fraud is a human act.

Notes

1. In this context, consider Yahoo CEO Marissa Mayer’s recent company policy, beginning in June 2013, that company employees hitherto telecommuting, or working from home, will be required to come into the office. Specifically, the memo sent out to Yahoo employees stated that speed and quality “are often sacrificed when we work from home. . . . Being a Yahoo isn’t just about your day-to-day job, it is about the interactions and experiences that are only possible in our offices.”
2. Joseph T. Wells, *Fraud Fighter: My Fables and Foibles* (Hoboken, NJ: John Wiley & Sons, 2011), xiii.

3. See Tom R. Tyler, *Why People Obey the Law* (New Haven, CT: Yale University Press, 1990).
4. D. Ariely, *The (Honest) Truth about Dishonesty: How We Lie to Everyone—Especially Ourselves* (New York: HarperCollins, 2012).
5. Donald Ray Cressey, “Management Fraud, Accounting Controls, and Criminological Theory,” in *Management Fraud: Detection and Deterrence*, ed. R. K. Elliott and J. J. Willingham (New York: Petrocelli Books, 1980), 118.
6. David R. Saunders, “Psychological Perspectives on Management Fraud,” in *Management Fraud: Detection and Deterrence*, ed. R. K. Elliott and J. J. Willingham (New York: Petrocelli Books, 1980), 108.
7. Arthur Levitt, “Numbers Game,” speech delivered at New York University, September 28, 1998, <http://www.sec.gov/news/speech/speecharchive/1998/spch220.txt>.
8. Erving Goffman, *The Presentation of Self in Everyday Life* (New York: Anchor Books, 1959).
9. Based on a personal conversation that coauthor Joseph Koletar had with Ken Friedman.
10. Leonard R. Sayles and Cynthia J. Smith, *The Rise of the Rogue Executive: How Good Companies Go Bad and How to Stop the Destruction* (Upper Saddle River, NJ: Prentice Hall, 2006).
11. Roger Lowenstein, *Origins of the Crash* (New York: Penguin Press, 2004).
12. “Don’t Blame Hedge Funds for Financial Crisis, Study Says,” *Wall Street Journal*, September 19, 2012, <http://blogs.wsj.com/marketbeat/2012/09/19/dont-blame-hedge-funds-for-financial-crisis-study-says>; and “Crisis Panel Report Pins Blame on Wall Street, Washington,” Bloomberg, January 26, 2011, <http://www.bloomberg.com/news/2011-01-26/crisis-panel-report-pins-blame-on-wall-street-washington.html>.
13. American Institute of Certified Public Accountants (AICPA), *Management Override of Internal Controls: The Achilles’ Heel of Fraud Prevention* (New York: AICPA, 2005). Similarly, in the late 1990s, AICPA’s Fraud Task Force did an excellent job of incorporating the fraud triangle components into its Statement on Auditing Standards (SAS) 99, “Consideration of Fraud in a Financial Statement Audit,” which emphasized the need to exercise a higher degree of professional skepticism and suggested brainstorming as a useful planning strategy before commencing auditing fieldwork.
14. The Hon. David M. Walker, “Integrity: Restoring Trust in American Business and the Accounting Profession,” speech given to the American Institute of Certified Public Accountants’ leadership conference, November 2002, <http://www.gao.gov/cghome/2002/acpro122.pdf>.
15. All this certainly seems true of former New Jersey governor and MF Global CEO Jon Corzine who was charged in June 2013 by the Commodities and Futures Trading Commission with the alleged misuse of over \$1 billion in customers’ funds.
16. F. Gino and M. H. Bazerman, *Slippery Slopes and Misconduct: The Effect of Gradual Degradation on the Failure to Notice Others’ Unethical Behavior* (Cambridge, MA: Harvard Business School, 2007), <http://www.people.hbs.edu/mbazerman/Papers/Gino-Baz-06-007-Slippery%20Slopes.pdf>.

17. Humpback whales off the coast of Maine use lobtail feeding, a complex behavior that traps fish. First observed in 1981, this behavior had been adopted by 50 percent of the whale population in the area by 1989. See L. Rendell and H. Whitehead, "Culture in Whales and Dolphins," *Behavioral and Brain Sciences*, no. 24 (2001): 309–82.
18. Sarah F. Brosnan and Frans F. de Waal, *Monkeys Reject Unequal Pay* (Atlanta, GA: Emory University Yerkes Primate Research Center, 2003). A brown capuchin monkey (*Cebus apella*) will toss a cucumber to the ground if she is offered the inferior item at the same time that her partner is unfairly favored with a more delectable grape. The experimenters concluded that aversion to inequities—a hardwired sense of fairness—is probably innate not only in humans but also in other species.
19. Roger Lowenstein, *The End of Wall Street* (New York: Penguin Press, 2010), 75.
20. *Ibid.*
21. *Ibid.*
22. James Q. Wilson and George L. Kelling, *Broken Windows: The Police and Neighborhood Safety* (New York: Manhattan Institute, 1982), http://www.manhattan-institute.org/pdf/_atlantic_monthly-broken_windows.pdf.
23. Michael J. Apter, *Danger: Our Quest for Excitement* (Oxford, UK: One World Publications, 2007), 10.
24. Quoted in S. Kassin, S. Fein, and H. R. Markus, *Social Psychology*, 8th ed. (Belmont, CA: Wadsworth, Cengage Learning, 2011), 29.
25. Richard Dooling, "Rise of the Machines," *New York Times*, October 12, 2008, http://www.nytimes.com/2008/10/12/opinion/12dooling.html?pagewanted=all&_r=0.
26. A particularly interesting perspective is provided by a Madoff victim, Stephen Greenspan, clinical professor of psychiatry at the University of Colorado. See his opinion piece from Tuesday, December 23, 2008, in eSKEPTIC, the e-mail newsletter of the Skeptics Society, www.skeptic.com/eskeptic/08-12-23/#feature.