

Preface

Corruption is not a new development for humankind. As long as there have been recorded accounts of human history, there have been stories of deceptive self-dealing and betrayal for personal gain. We need to look no further than the Roman Empire for countless examples of corruption, bribery, political dishonesty and discarded alliances. The civilization that helped establish a blueprint for modern democratic governments also created a model for just about every corruption scheme imaginable.

Take the account of Emperor Nero's rise to power as an example. He gained the title of emperor amid rumors that his mother, Agrippina, poisoned her own husband and Nero's stepfather, then-emperor Claudius, so her son could ascend to the throne. Nero was still a teenager at the time, and Agrippina believed she would be able to direct the course of the empire by manipulating her son. However, when Nero began asserting his own power and eschewing his mother's influence, Agrippina turned her hopes to her stepson Britannicus. As the birth son of Claudius (although he was younger than Nero), Britannicus could challenge Nero for the throne — a threat the emperor took seriously.

As the story goes, Nero first poisoned the 15-year-old Britannicus to assert himself as Rome's rightful leader and then arranged for his mother to be killed. After these shocking crimes, he embarked on a spree of executions to eliminate senate members he did not trust and anyone else he considered a political threat. And there we have the framework for a leader to corruptly consolidate and establish his power.

Modern corruption has become slightly more subtle and, luckily, we see fewer outright assassinations these days, but that comfort does nothing to reduce the damage that this fraud still causes. *Black's Law Dictionary* defines *corruption* as "depravity, perversion, or taint; an impairment of integrity, virtue, or moral principle; esp., the impairment of a public official's duties by bribery." Corruption can include conflicts of interest, bribery, economic extortion and illegal gratuities. It is everywhere — an insidious, communicative disease that plagues private industry, public service and the political process. It destroys trust, bottom lines, careers and even lives. As the cases in this collection demonstrate, no one is immune to

corruption. Try as we might to implement controls and procedures to prevent ourselves and our employers or businesses from becoming victims, cunning criminals make it their goal to circumvent our hurdles in pursuit of their own self-interest.

Most people have heard of Rod Blagojevich. You might think of President Barack Obama when you hear his name, or you might simply picture that trademark Blago hair. Either way, in the past few years he has become a poster boy for corruption. In 2008, when then-Senator Obama was elected to the presidency, he left a vacant U.S. Senate seat up for grabs in Illinois. As governor of Illinois, Rod Blagojevich had the authority to appoint someone to fill the vacant senate seat, but he abused his gubernatorial power and solicited bribes and other favors from parties who had an interest in the seat. As part of the investigation into Blagojevich's suspected corruption, the FBI wiretapped his phone. Perhaps the most infamous sound bite to come from those recordings was the one where he described his position as "f___ing golden" and said he wouldn't give the appointment away "for f___ing nothing." The recorded evidence turned out to be the most damning against Blagojevich, and he was eventually found guilty of 17 out of 20 criminal charges, including bribery and attempted extortion. He was sentenced to 14 years in prison.

Corruption is not confined to the political circus. Public and private companies often suffer losses, both financial and reputational, from the corrupt actions of owners, executives and staff members. The primary anti-corruption legislation in the United States is the Foreign Corrupt Practices Act (FCPA), a law that Congress enacted in 1977. The FCPA makes it illegal for U.S. companies or individuals acting anywhere in the world to directly or indirectly offer or pay anything of value to foreign officials to obtain or retain business. In addition to U.S. citizens and enterprises, the FCPA also applies to foreign companies that have securities registered in the United States or file reports with the Securities and Exchange Commission, and to foreign individuals and companies that take any action to promote a corrupt payment while in the United States.

Remember the Siemens bribery scandal in 2008? The German engineering firm was undergoing scrutiny in the United States and Europe based on claims that staff and managers paid bribes to foreign officials in various countries to secure lucrative contracts. The amounts were staggering; for example, according to a *Frontline* article called "At Siemens, Bribery Was Just a Line Item," one single accounting employee at Siemens claimed to oversee an annual "bribery budget" of \$40 to \$50 million. That is just one staff member at a company that employed thousands. The company faced FCPA charges in the United States and eventually reached a settlement agreement that included paying \$800 million in fines. At the same time Siemens settled another case, this one in Europe, for hundreds of millions of dollars as

well. In total, Siemens paid \$1.6 billion to settle corruption charges around the world.

In 2010, news emerged of another multimillion-dollar international corruption scheme. Six oil and gas companies (Transocean Inc., Tidewater Marine International Inc., Pride International Inc., Noble Corporation, Shell Nigeria Exploration and Production and Global Santa Fe Corporation) and one shipping company (Panalpina) were accused of bribing officials in various countries for the ability to import equipment into the countries without paying the necessary taxes and fees. This case was also settled and the companies collectively agreed to pay \$236 million in fines.

According to the ACFE's 2010 *Report to the Nations on Occupational Fraud and Abuse*, corruption cases accounted for 32.8 percent fraud cases during the reporting period, and the median loss per case was \$250,000. To prevent and detect corruption schemes, it helps to be aware of the common red flags associated with such frauds. In 45.6 percent of corruption cases in the *Report to the Nations*, the perpetrators displayed unusually close ties with a vendor or customer. The second most common behavioral red flag was living beyond their means, as seen in 42 percent of cases. Clearly, corruption is a costly fraud, and knowing what warning signs to watch for might help business owners prevent future cases.

In this book, you will read corruption cases from around the globe, large and small, punished and unpunished. We have changed the names of people, places and companies to maintain the anonymity of those involved, but the facts of the cases are genuine. These are real corruption cases, investigated by members of the ACFE. All profits from this book will be donated to the ACFE Scholarship Foundation in the hope that future fraud fighters will receive the education they need to carry the torch into the next generation.

Publishing a book is a collaborative effort, and this one was no exception. The members of the ACFE who submitted case studies to this project deserve the lion's share of recognition for all their hard work. It was a pleasure collaborating with these professionals who are out in trenches every day. Without their efforts, this book would not be in your hands right now. In addition, we would like to thank ACFE editors Laura Telford and Diane Calmes for providing invaluable editing assistance. Stacey Rivera and Natasha Andrews-Noel at John Wiley & Sons are consummate professionals and made the sometimes-tumultuous publishing process run seamlessly.

Bribery and corruption are among the oldest and most primitive fraud schemes that humans commit. People have been acting corruptly for centuries, and they don't appear to be slowing down. "It's just the cost of doing business in foreign countries." This weak excuse is commonly offered by corporate officers facing charges of violating the FPCA. However, committing fraud should never be a cost of doing business. The greater awareness we, as a community, can bring to this issue, the greater our power will be to combat

it. Whether you are a practitioner, educator or simply a concerned citizen, we hope this book will motivate you to continue the fight.

Dr. Joseph T. Wells, CFE, CPA
Laura Hymes, CFE
Austin, Texas
April 2012