



Central Carolina Chapter

August 3, 2023



The Honest Truth About Fraud

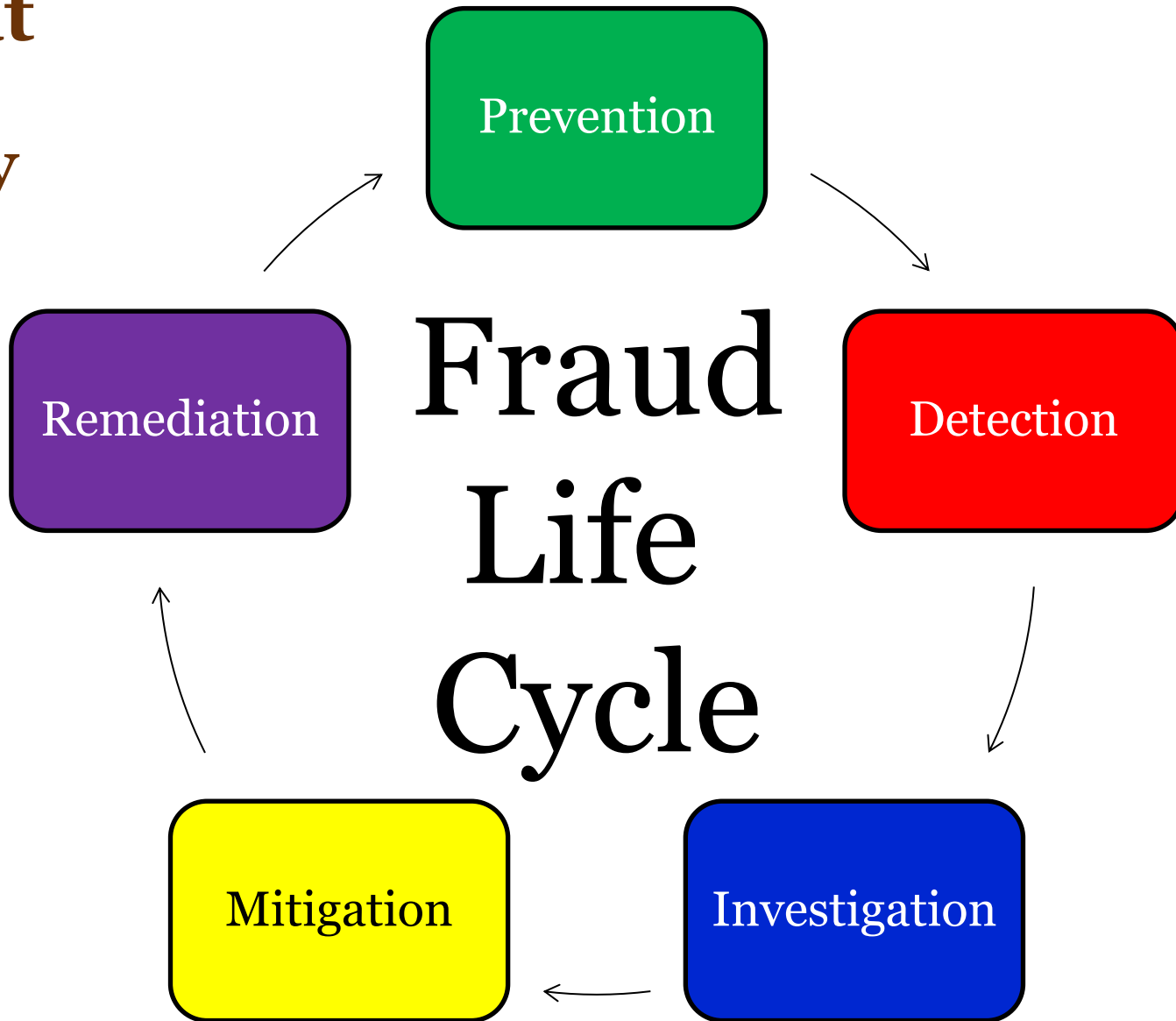
Vic Hartman

J.D., CPA/CFF, CFE

The Hartman Firm, LLC

Atlanta, Georgia

What & Why

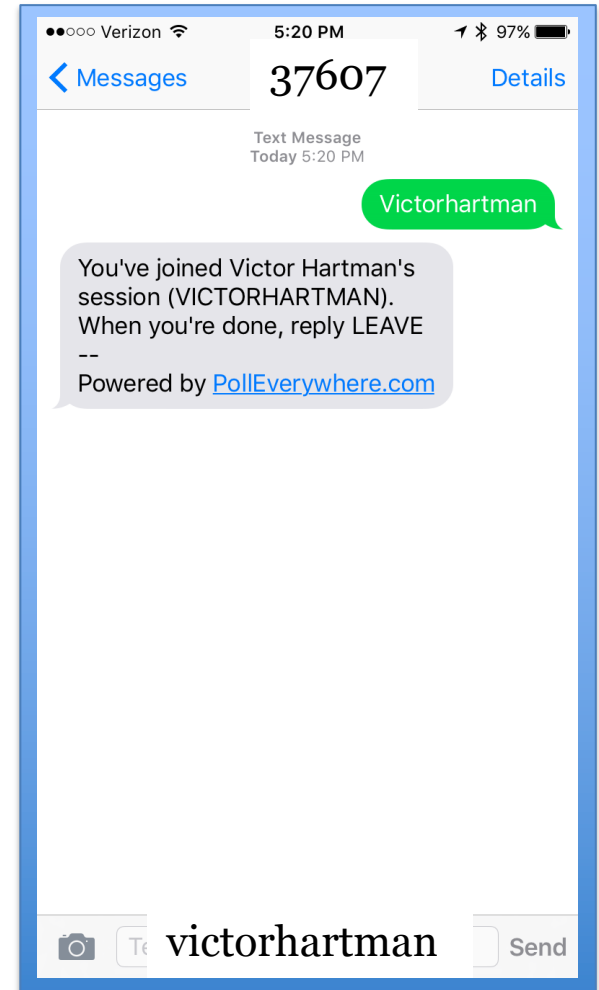


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Setup Poll Everywhere

Text Number: 37607

Text Message: victorhartman



 Text **VICTORHARTMAN** to **37607** once to join, then **1, 2, 3, 4, or 5**

What's your favorite cupcake?



1



2



3



4



5

Total Results: 0

Powered by  **Poll Everywhere**

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What profession are you a member of?

Internal Audit

CPA Firm

Private Investigator

Law Enforcement

Attorney

Government

Company / Industry

Other

Why Do People Commit Fraud?

Why



Text **VICTORHARTMAN** to **37607** once to join, then **1, 2, 3, 4, 5...**

Why Do People Commit Fraud?



Total Results: 0

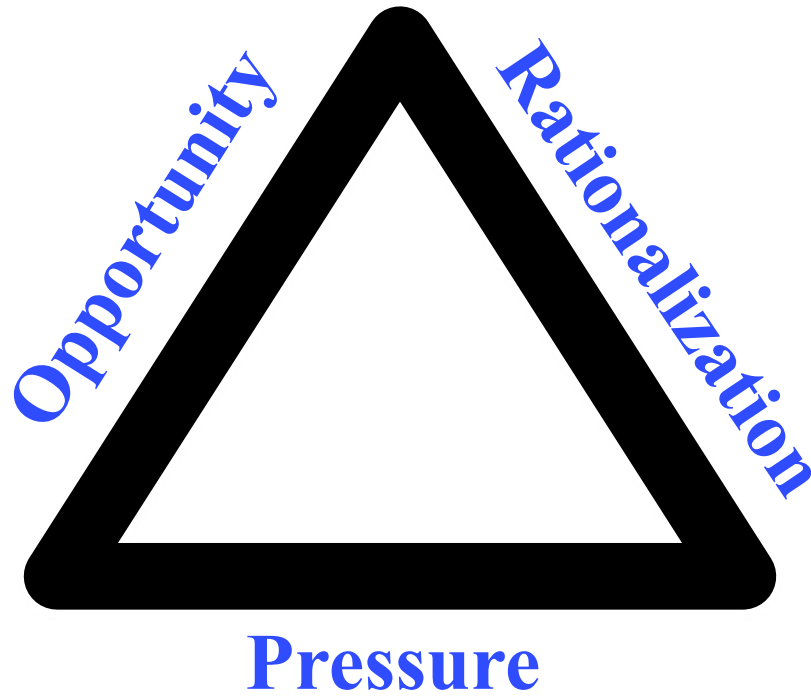
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It May Not Be The “G” Word

~~Greed~~

Fraud Triangle



Emotions Drive Fraud

Shame

Enjoyment

Fear Interest

Emotions as Data

Anger

Surprise

Distress

Contempt

Disgust

Peeling the Onion



Polling Question #1

Which of the following is true?

1. The fraud triangle does not explain all frauds.
2. Emotions inform a decision to commit fraud.
3. Greed is only one explanation for fraud.
4. All of the above.

Motivations: Business Need

- “Noble Cause”
- Economic downturn
- “Save the company” mentality



Motivations: Ego

- Hyper-competitiveness
- “Dark Triad”:
 - Narcissism
 - Machiavellianism
 - Psychopathy
- Self-aggrandizement
- Pride
- Shame



Motivations: Excitement

- Gambling with other people's money
- Financial Services Industry
- Risk Taker



Motivations: Parity

- I deserve better.
- Devoted my entire career here.
- I'm getting cheated.



(cp) corporate
perks

Motivation: Reciprocity

Social Compact of Reciprocity:
humans are in a web of give-and-take relations; the behavior has survival value.

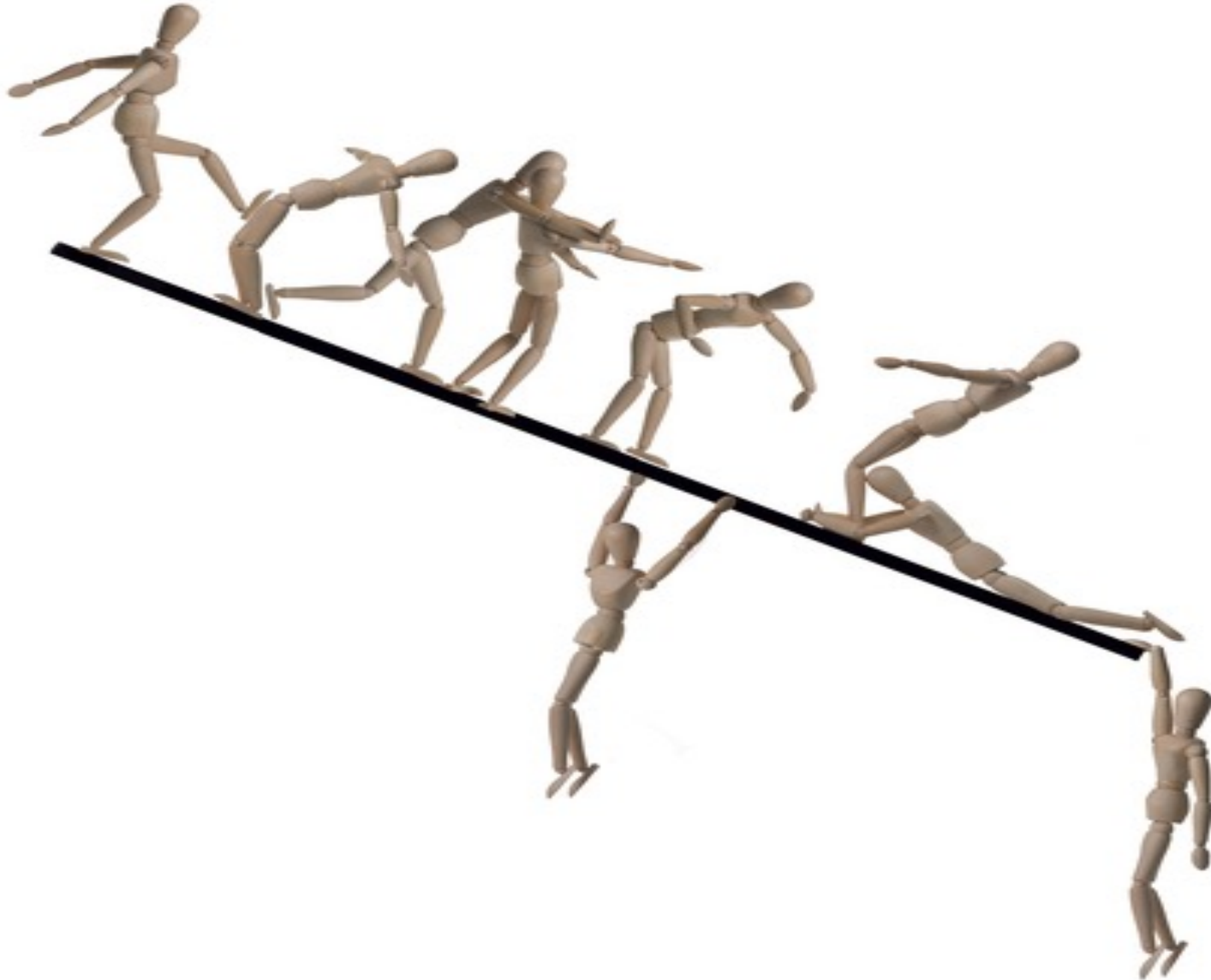


Polling Question #2

Social Compact of Reciprocity is an explanation for which type of fraud?

1. Financial Statement Fraud.
2. Asset Misappropriation.
3. Corruption.
4. Non-occupational Frauds.

Motivation: Slippery Slope



Motivations: Status

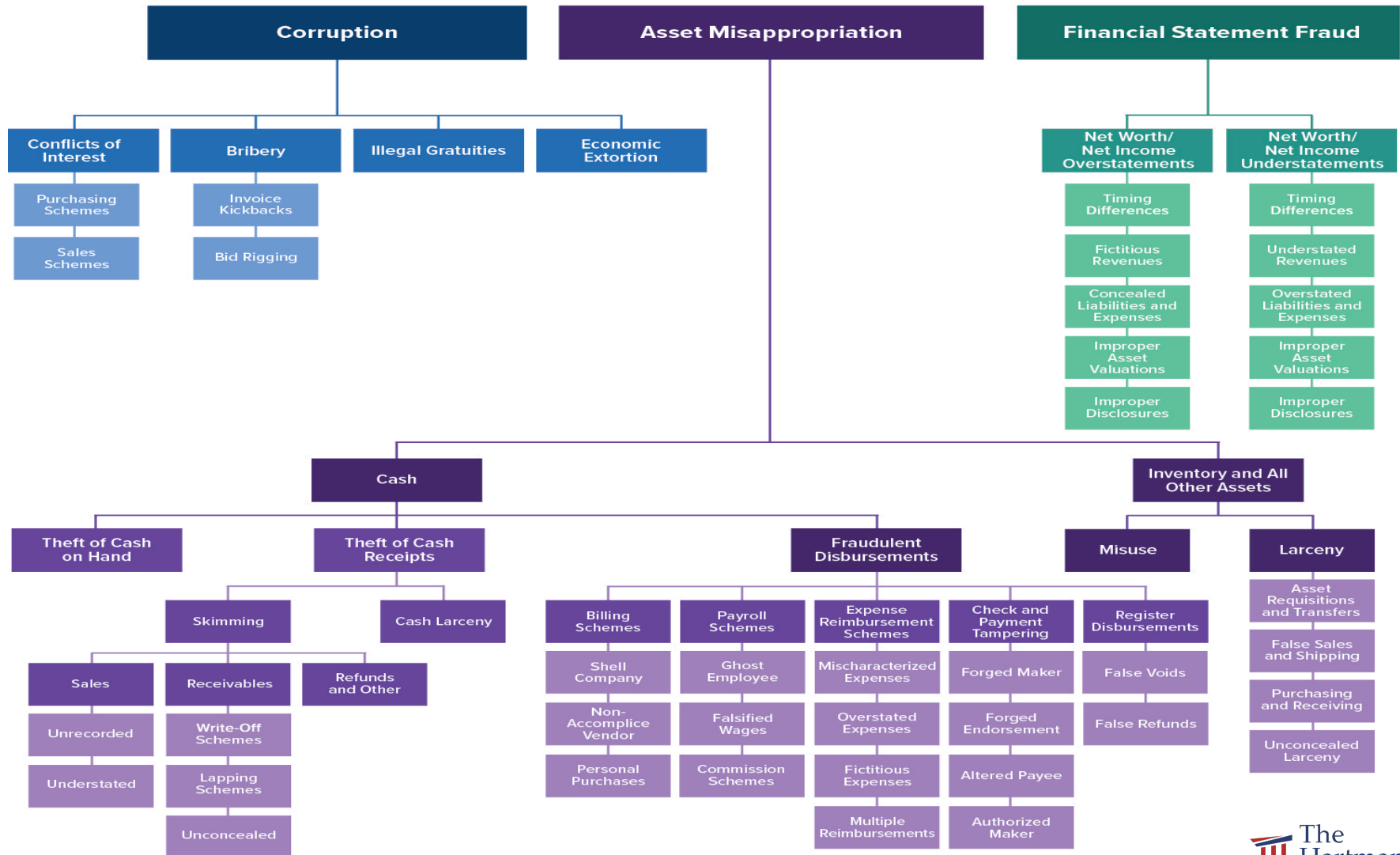
- Save my status: Fear based
 - Lose job
 - Alcohol & Drug addiction
 - Bankruptcy
 - Divorce
- Increase my status: Greed based
 - Status symbols
 - Clothes, Neighborhood, Automobile



A pair of binoculars is shown from a top-down perspective, with the two lenses forming a central shape. The view through the lenses is a serene landscape of a blue sky with light clouds above a calm, blue-green ocean. The text "Fraud Threat Picture" is overlaid in a large, bold, red serif font across the center of the binocular view.

Fraud Threat Picture

Fraud Tree (Occupational Frauds)

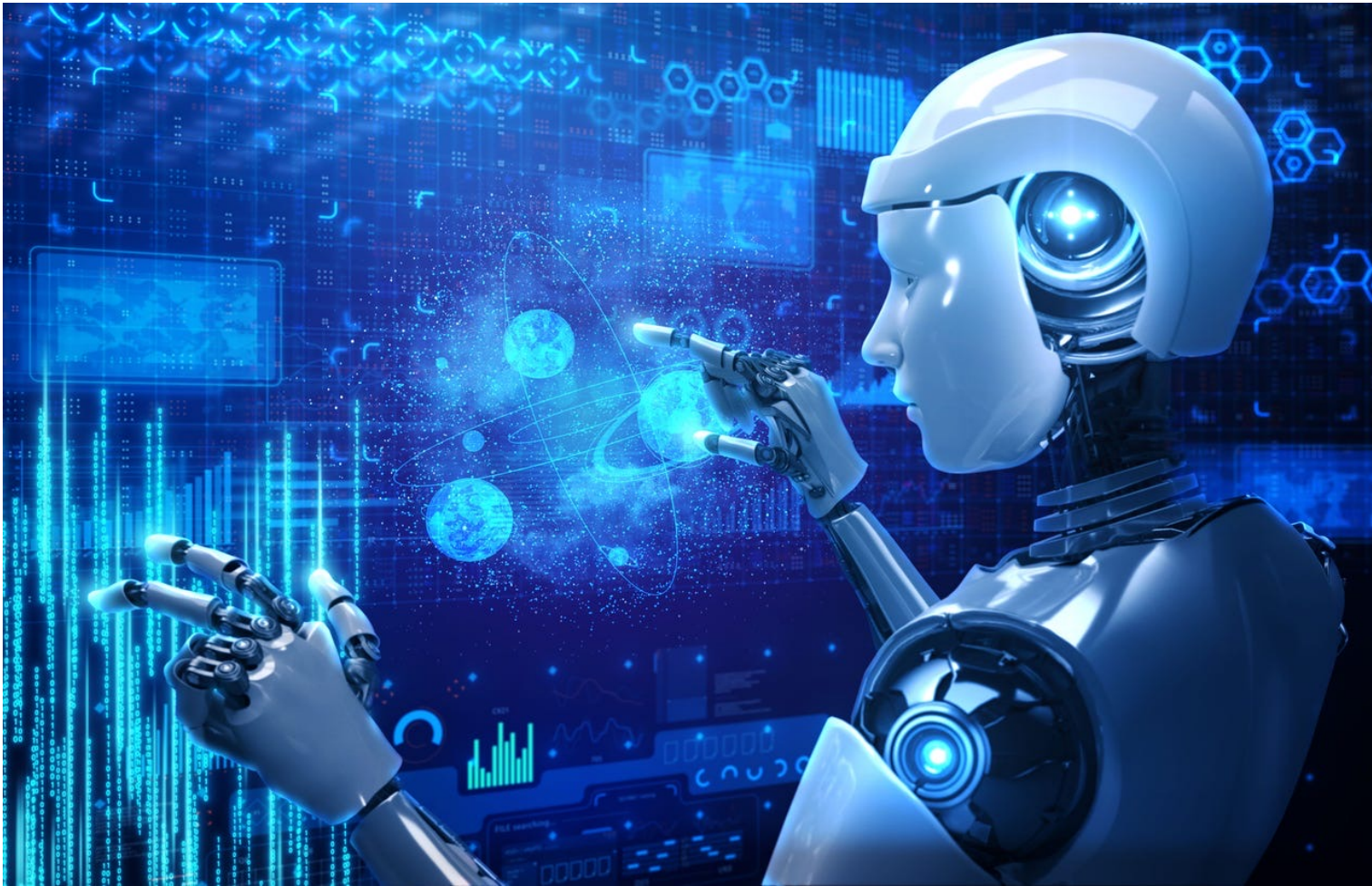


Nonoccupational Frauds

Nonoccupational Frauds

- Cyber Scams
- Scams (e.g. con artists, elder abuse, romance)
- Securities Fraud
- Government Fraud
- Insurance Fraud
- Financial Institutional Fraud
- Bankruptcy, Matrimonial, and Business Divorce Fraud
- Theft of Intellectual Property and Information
- Money Laundering

Generative Artificial Intelligence Fraud?



Gen. AI Frauds

- Emails Scams
- Business Email Compromise
- Deepfake Audio (Video is coming)
- Semiconductor Espionage
- Copyright Frauds
- Malicious Code
- Student Cheating
- Pornography
- Training Data
 - Steal Training
 - Adversarial Machine Learning

Polling Question #3

The fraud triangle provides a poor explanation for non-occupational frauds.

1. True
2. False

What is the largest fraud in the U.S.?

Health Care Fraud

Ransomware

Tax Fraud

Business Email Compromise

Theft of Intellectual Property

The Three (3) Largest Frauds

- What are the frauds?
- Tax Fraud
 - 1/2 Trillion
- Theft of Intellectual Property
 - 1/2 Trillion
 - Think China
- Health Care Fraud
 - 1/4 Trillion
- What do these have in common?
- Victim apathy!

Ransomware

Wanna Decryptor 1.0



Ooops, your files have been encrypted!

What Happened to My Computer?

Your important files are encrypted.

Many of your documents, photos, videos, databases and other files are no longer accessible because they have been encrypted. Maybe you are busy looking for a way to recover your files, but do not waste your time. Nobody can recover your files without our decryption service.

Can I Recover My Files?

Sure. We guarantee that you can recover all your files safely and easily. (But you have not so enough time.)

You can try to decrypt some of your files **for free**. Try now by clicking <Decrypt>. If you want to decrypt all your files, you need to **pay**.

You only have 3 days to submit the payment. After that the price will be doubled. Also, if you don't pay in 7 days, you won't be able to recover your files forever.

How Do I Pay?

Payment will be raised on
5/15/2017 16:25:02
Time Left
02:23:58:28

Your files will be lost on
5/19/2017 16:25:02
Time Left
06:23:58:28

[About bitcoin](#)
[How to buy bitcoins?](#)
[Contact Us](#)

Send \$300 worth of bitcoin to this address: [QR Code](#)

 **bitcoin**
ACCEPTED HERE

15zGqZCTcys6eCjDkE3DypCjXi6QWRV6V1

Business Email Compromise

- “Vendor” to Employee
 - Phone
 - Fax
 - Spoofed email
- “Employee” to Employee
 - Spoofed or hacked email
- “Employee” to Customers
 - Hacked email



DOJ's Qui Tam Stats

Year	# Qui Tams	Total Recover	Relators' Recovery
1987	31	0	0
1988	53	2,343,104	97,188
1989	94	15,113,400	1,446,970
1990	83	40,558,367	6,611,606
1991	87	70,453,931	10,686,287
1992	116	134,943,903	24,381,432
1993	138	190,246,787	29,343,137
1994	216	381,840,528	70,292,246
1995	269	240,659,292	45,628,096
1996	340	137,883,636	25,851,597
1997	548	627,940,474	67,515,904
1998	468	469,082,921	78,751,017
1999	493	487,632,736	64,392,552
2000	363	1,210,059,645	184,054,520
2001	314	1,344,113,067	218,292,350
2002	319	1,103,960,162	165,960,141
2003	334	1,540,048,263	338,690,598
2004	432	570,979,382	112,600,348
2005	407	1,156,529,117	170,612,237
2006	385	1,513,816,862	225,623,908
2007	365	1,411,973,849	199,080,111
2008	379	1,116,597,452	211,430,202
2009	433	1,997,781,730	259,251,282
2010	576	2,388,833,862	410,434,427
2011	634	2,830,691,117	574,076,628
2012	655	3,395,743,512	449,784,199
2013	757	2,998,117,418	559,334,455
2014	717	4,481,816,440	715,742,857
2015	640	2,414,916,993	483,308,546
2016	708	3,036,859,956	555,031,904
2017	682	3,150,205,922	537,586,579
2018	648	2,137,759,709	341,906,156
2019	638	2,249,852,225	366,048,419
2020	675	1,706,256,665	324,394,215
2021	598	1,665,727,109	238,003,381
Total	14,595	\$48,221,339,536	\$8,066,245,495

Polling Question #4

Qui Tam means on behalf of the King.

1. True
2. False

“Steal the Assets” Fraud

- Bankruptcy
- Matrimonial
- Business Divorce



Theft of Intellectual Property

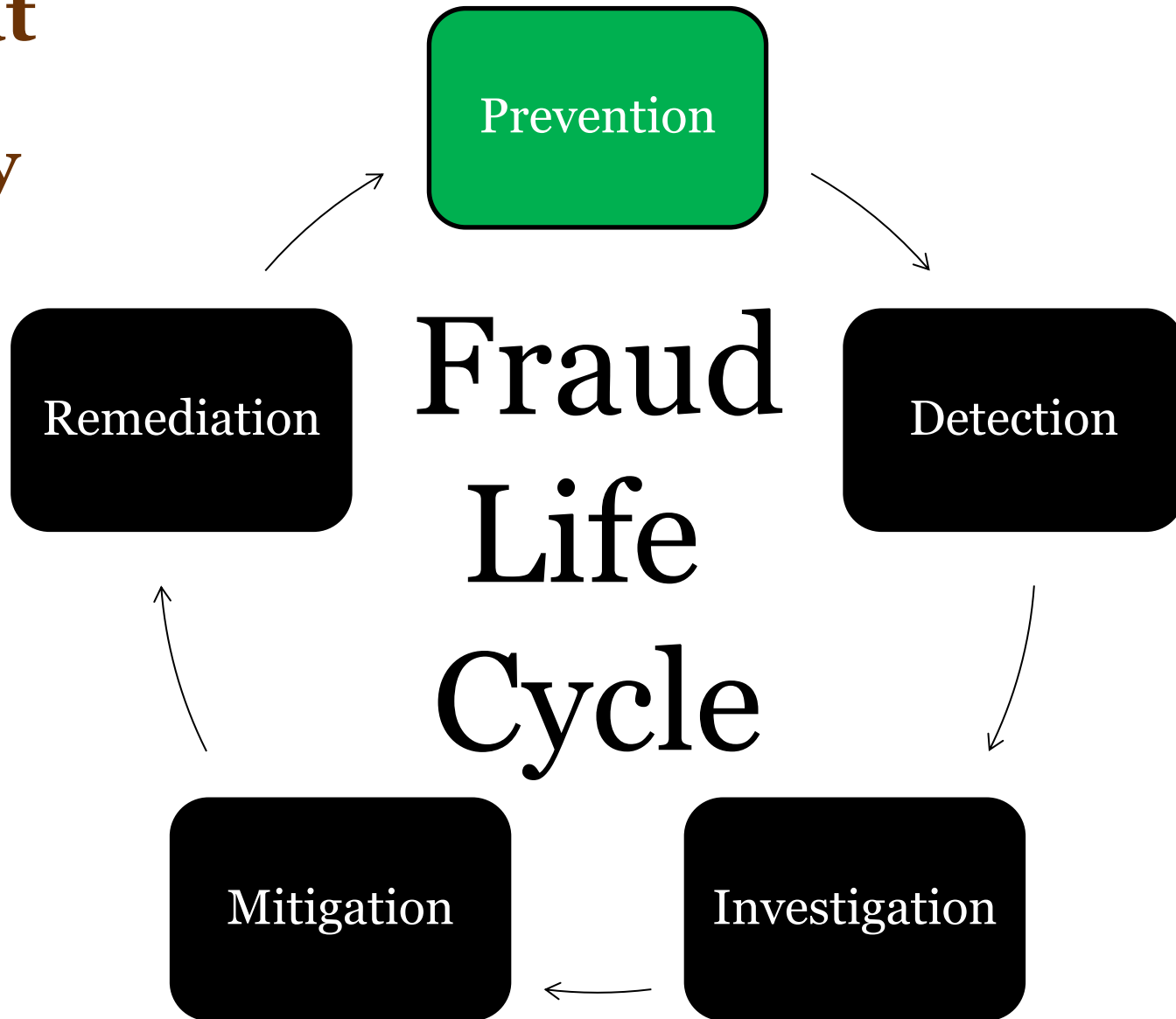
- 1/2 Trillion
- Two types:
 - Tangible IP
 - ✓ Copyrights
 - ✓ Patents
 - ✓ Trademarks
 - Trade Secrets
- Two types of actors
 - Foreign (Think China)
 - Insider



A white front-loading washing machine is the central focus, with its door open. In front of the machine, there is a large, messy pile of stacks of US dollar bills, some wrapped in rubber bands. The text is overlaid in a large, bold, red font.

**Money
Laundering
Old School
New School**

What & Why



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Fraud Risk Assessment

What = Hard Controls

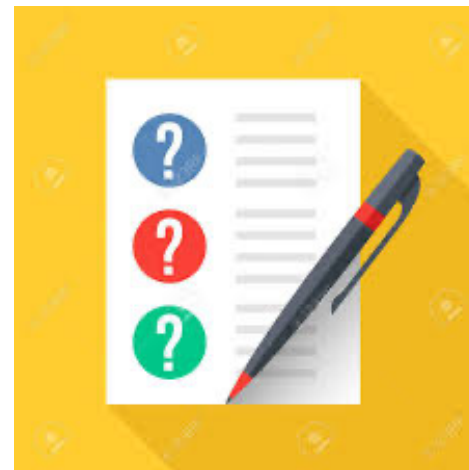
Why = Soft Controls

Fraud Risk Assessment

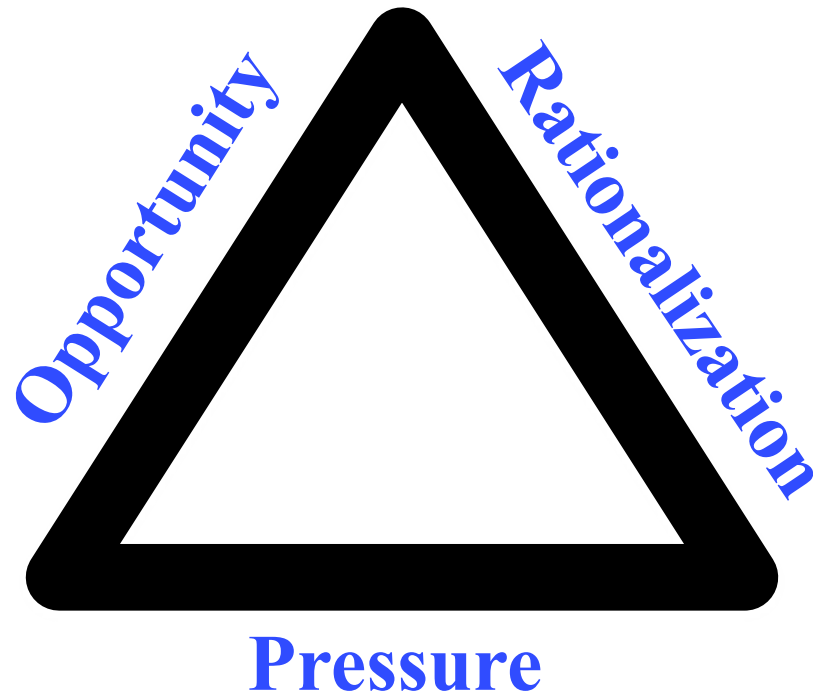
- Think Like a Fraudster
- It's Akin to an Investigation
- Interview All Key Stakeholders
- Game Theory
- Corporate Fraud Council
- Connecting the Dots

Key Questions

- What vulnerabilities do you see in the organization?
- If someone wanted to commit fraud, how could it be done?
- What controls do you think should be put in place?
- If somebody saw something inappropriate, would the person report it?

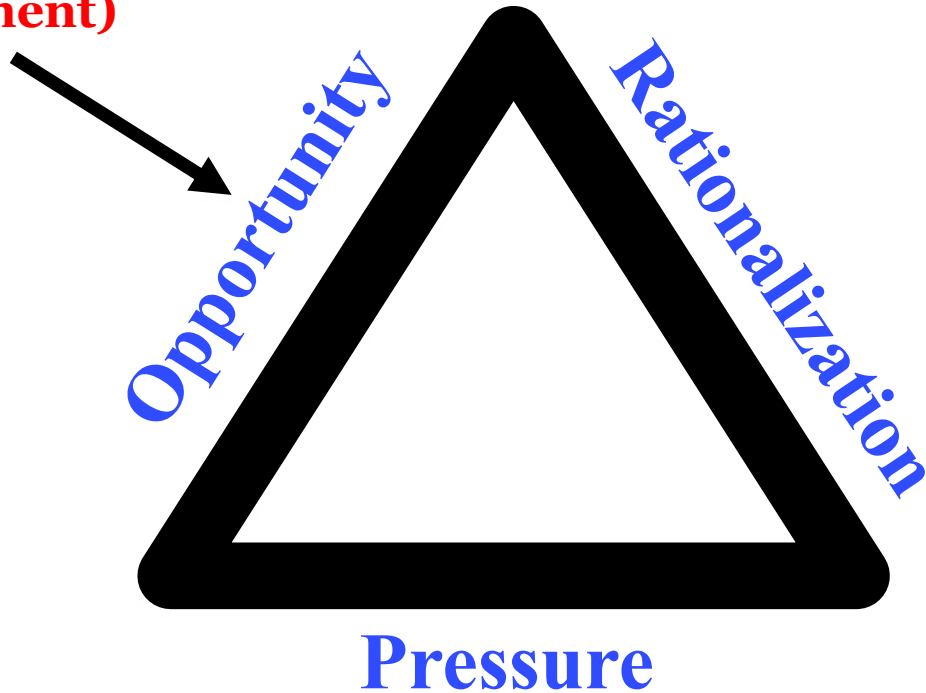


Fraud Triangle

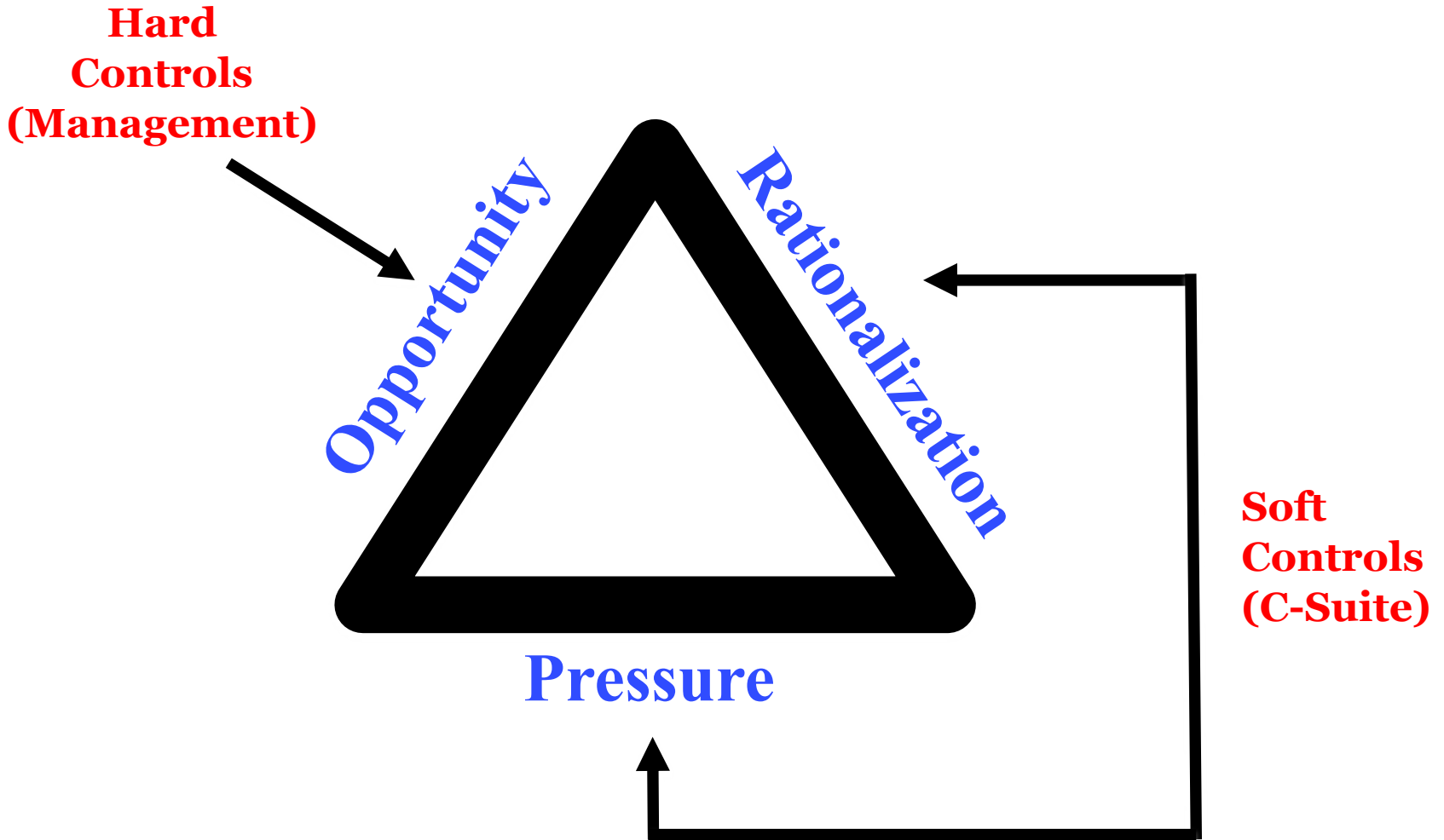


Fraud Risk Ownership Model

**Hard
Controls
(Management)**



Fraud Risk Ownership Model



Control Environment

■ **Hard Controls**

(Lowers Opportunity)

- Policies
- Procedures
- Safeguarding of Assets
- Test Internal Controls

■ **Soft Controls**

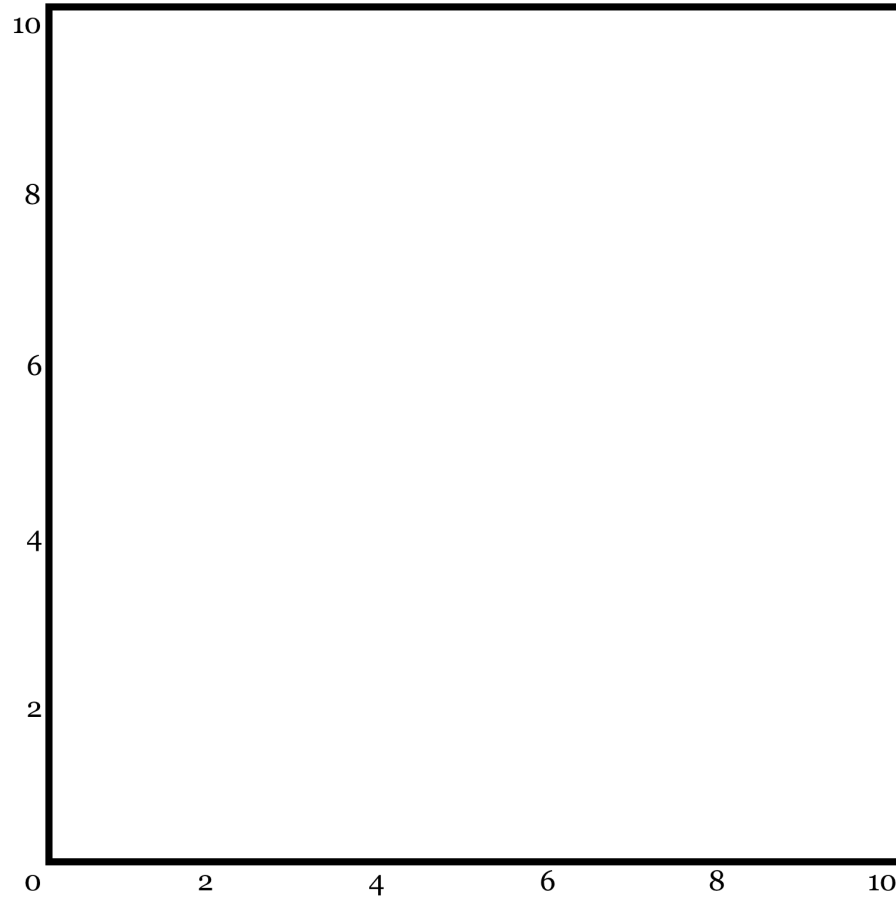
(Lowers Pressure & Rationalization)

- Competency
- Integrity
- Training
- Shared Values
- Strong Culture

Control Environment Assessment

Soft Controls:

- Competency
- Integrity
- Training
- Shared Values
- Strong Culture



Hard Controls:

- Policies
- Procedures
- Safeguarding of Assets
- Test Internal Controls

Rate Your Organizations Hard Controls 1 (Poor) - 10 (Perfect)



Total Results: 0

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Rate Your Organization's Soft Controls 1 (Poor) - 10 (Perfect)



Total Results: 0

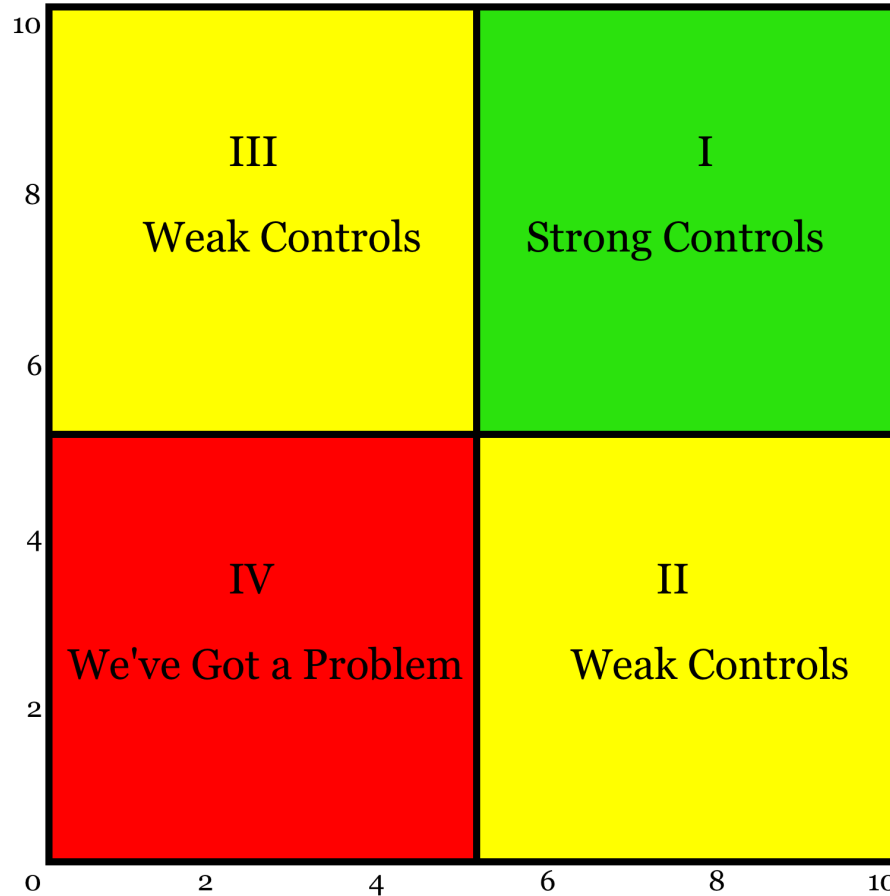
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Control Environment Assessment

Soft Controls:

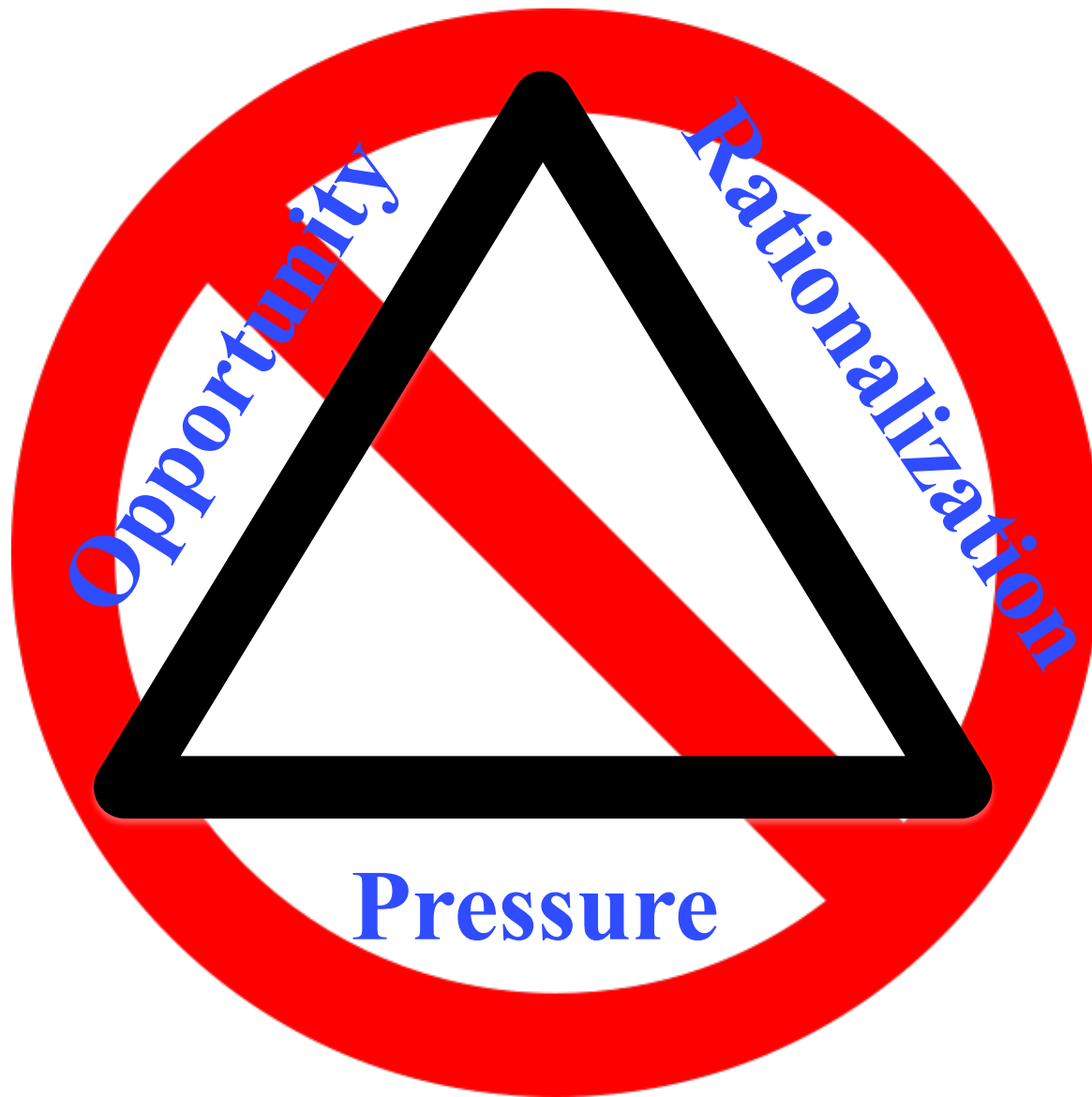
Trust
 Competency
 Integrity
 Training
 Shared Values
 Strong Culture



Hard Controls:

Policies
 Procedures
 Safeguarding Assets
 Test Internal Controls

Limitations of the Fraud Triangle



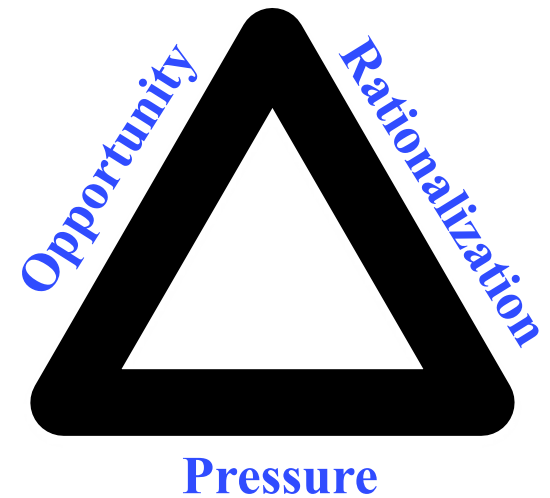
How Do These Frauds Differ?

- Overstating Inventory
- Revenue Recognition Fraud
- Travel Voucher Fraud
- Bogus Credit Card Charges
- Check Forgery by CFO
- Embezzlement
- Point of Sale Theft
- Payapp Fraud
- Phantom Vendor Scheme
- Counterfeit Products
- Ransomware
- Insurance Fraud
- Business Email Compromise
- Ponzi Schemes
- Identity Theft
- Phishing Schemes
- Penny Stock Pump & Dump Schemes

How Do These Relationships Differ?

- Employer and Employee
- General and Subcontractor
- Family members in Business
- Professor and Student
- Pastor and Parishioner
- Attorney and Client
- Doctor and Patient
- Board of Directors and Shareholders
- C-Suite and Board of Directors
- Investment Promoter and Investor
- Email Spammer and Email Recipient
- Vendor and Purchaser
- Check Writer and Check Casher
- IRS and Taxpayer
- Government Program and Beneficiary
- Insurance Company and Insured

Privity of Trust

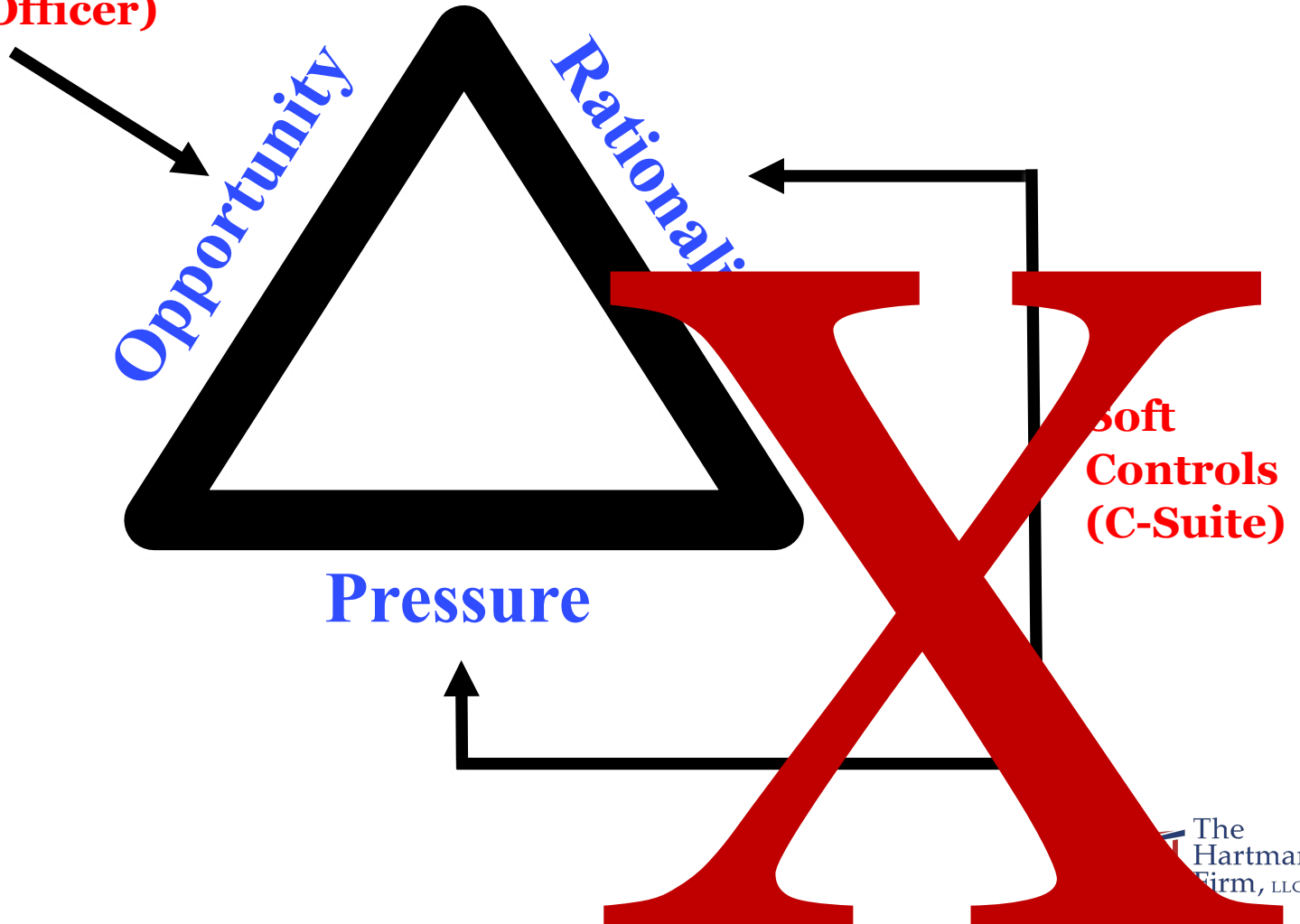


Predatory Fraudsters



Fraud Risk Ownership Model

**Hard
Controls
(Chief Risk Officer)**



Polling Question #5

Systemic fraud in an organization is most likely the result of:

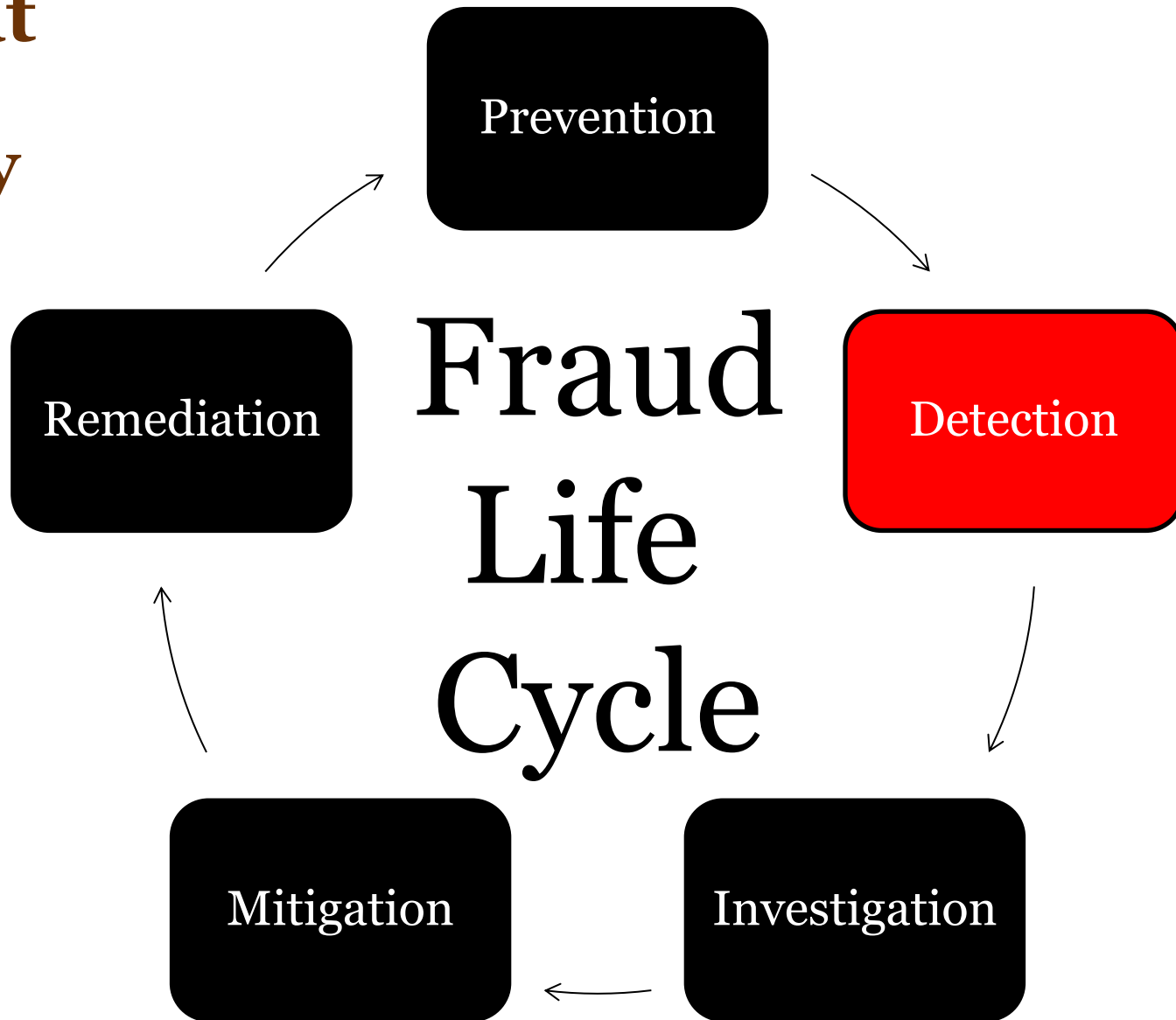
1. Hard control failure.
2. Soft control failure.

Prevention Frameworks

- ACFE Anti-Fraud Playbook
- COSO–Fraud Risk Management Guide (2023)
- Federal Sentencing Guidelines
 - (Business Compliance Program)
- IIA: Three Lines of Defense
- Managing the Business Risk of Fraud



What & Why



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Finding the Fraudster

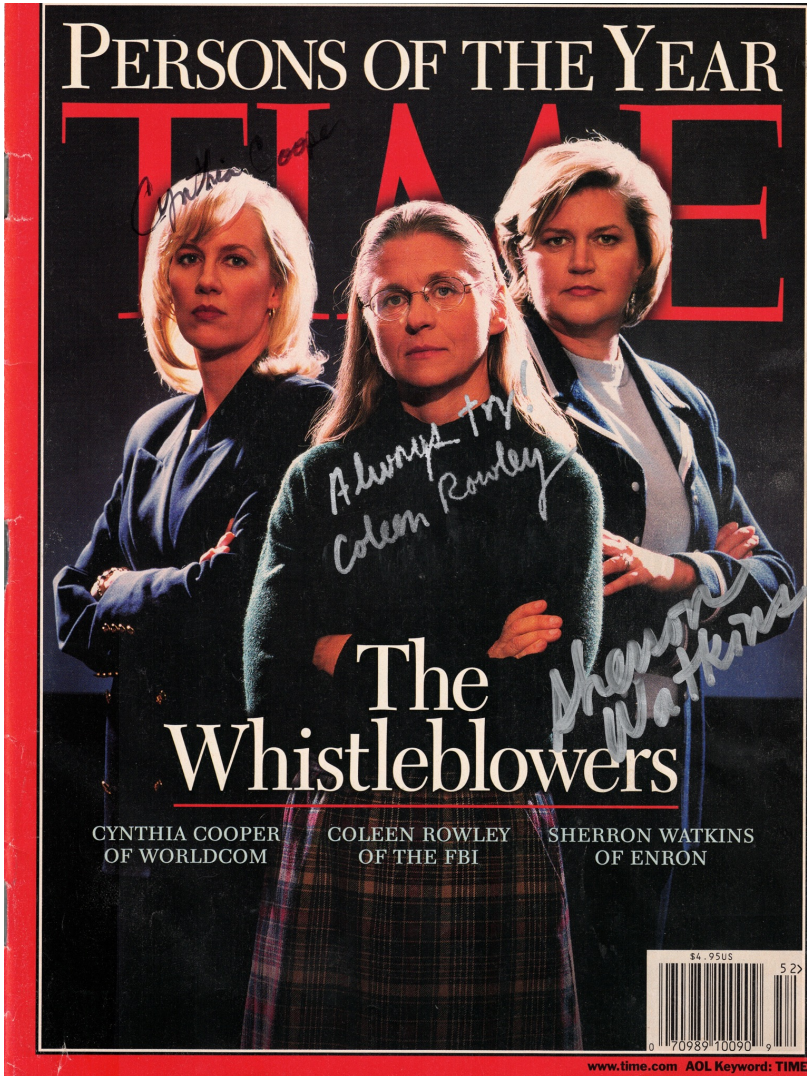


Polling Question #6

In your experience, whistleblowers are more likely to have which characteristic?

1. Male
2. Female
3. Disgruntled Employee
4. Monetary Reward Seeker

Whistleblower Motivations

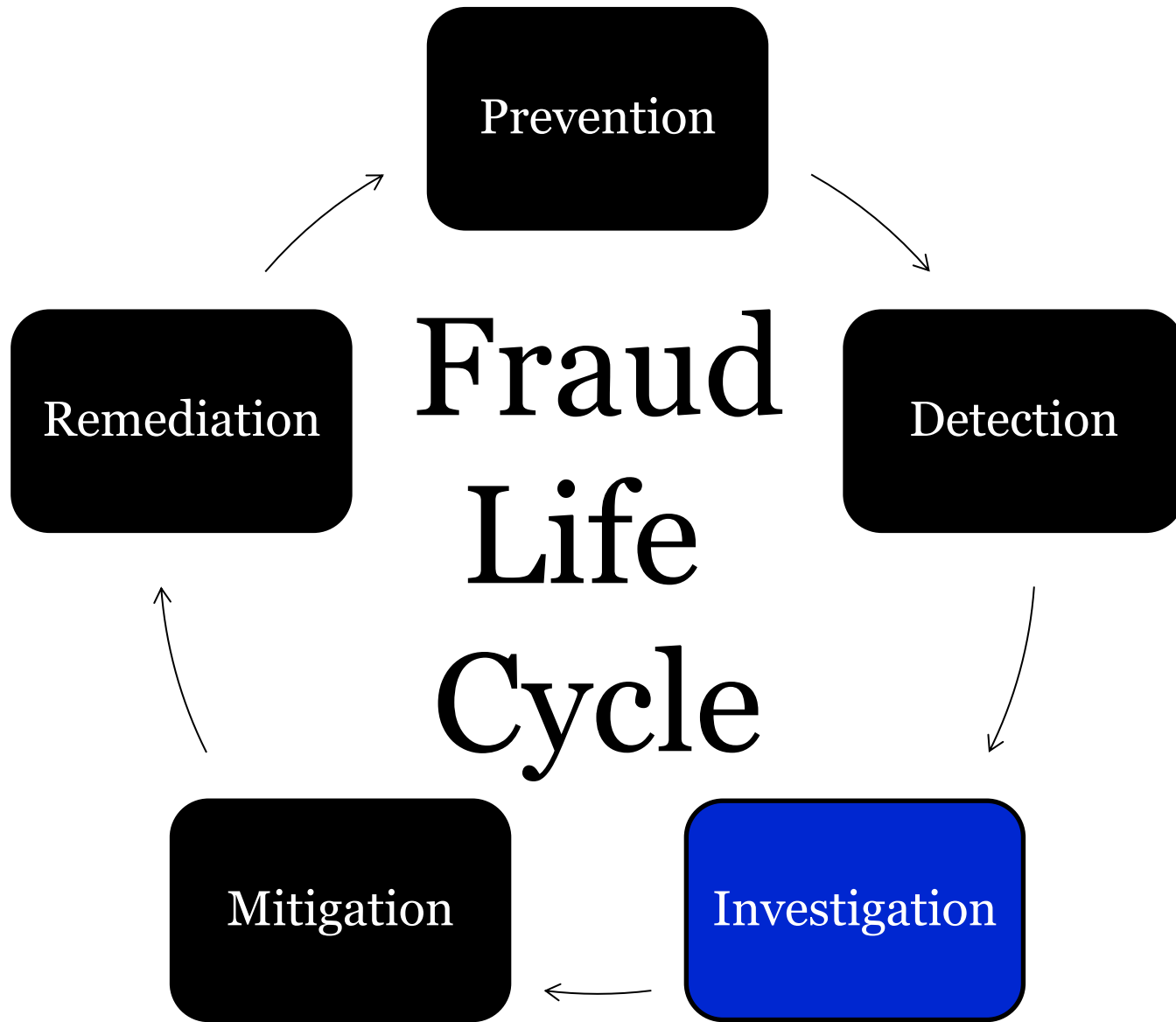


- Concerned Citizen
- Management Would Not Address Issue
- Monetary Award
- Revenge
- Romantic Falling Out
- Sense of empowerment

Detection

- Employee awareness
- Hot Line
- Whistleblower
- Data Analytics
- Escalation Protocol
- Continuous Monitoring
- Behavioral Forensics





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Definition of an Investigation

The collection of evidence for a specific purpose.



Who is the Client?

- Engagement letter
- Company or individual
- Which legal entity
- *Upjohn* Warnings

Polling Question #7

The *Upjohn* warning is:

1. Only required when an attorney is involved in the investigation.
2. Is also known as corporate *Miranda* Warnings.
3. Design to warn the interviewee he/she is not represented by the attorney.
4. All of the above.

Forensic Posture

Allen Stanford





Predication

- Facts and circumstances that provides a reasonable believe that a violation of a standard has occurred.
- The standard could be a code of conduct, corporate policy, regulation, violation of law or criminal conduct.
- Without predication, the target might be able to sue for real or punitive damages.
- Applies to all investigations—internal matter, civil or criminal.
- Document predication in the file.

Predication in a Fraud Case

An articulable, factual basis that would cause a reasonable person to believe that a fraud has occurred, is occurring, or might occur in the future.

Start with the End in Mind



Should it be Attorney-led?



Attorney-Client Privilege

- Communication between attorney and a client
- Seeking legal advice
- Does not pertain to communications in presence of third parties
- Waiver
- Crime-Fraud Exception
- Work Product Doctrine



Privileged Communications

- Attorney-client privilege
- Medical privilege
- Spousal privilege
- CPA-Client (minority rule)
- Other types
 - Religious: Priest-penitent privilege
 - Governmental privilege

Polling Question #8

The CPA-Client Privilege:

1. Is akin to the attorney-client privilege.
2. Is recognized in a minority of states.
3. Is generally not recognized in federal court.
4. All of the above.

Litigation Hold

- Litigation is Reasonable Anticipated
- Scope
- Remedies:
 - Monetary penalties
 - Adverse inference instruction to jury
 - Preclusion of evidence
 - Dismissal of case



Duty to Notify

- SEC Cases
- Insurance Company
- Audits of entities that receive governmental funding
- Law enforcement
 - Generally no duty
- Misprision of Felony
 - Title 18 U.S.C. 4
 - Concealment

Strategies

- What are you trying to prove or disprove?
- What are the legal elements?
- Covert v. Overt
- “Undercover”
- Fire or not fire – the employee
- To call or not call – law enforcement
- Prepare for a changing fact pattern



Organize the Investigation

- Inside Counsel
- Outside Counsel
- Audit Committee
- Executive Management
- Management
- Human Resources
- Internal Audit
- Security
- Forensic Accountant
- Forensic Technology Expert
- Information Technology Personnel
- Certified Fraud Examiner
- Investigator



Issues in Federal Investigations

- Secrecy
- Informants
- Grand Jury Rule 6(e)
- Wire Tap Information
- Privacy Act of 1974

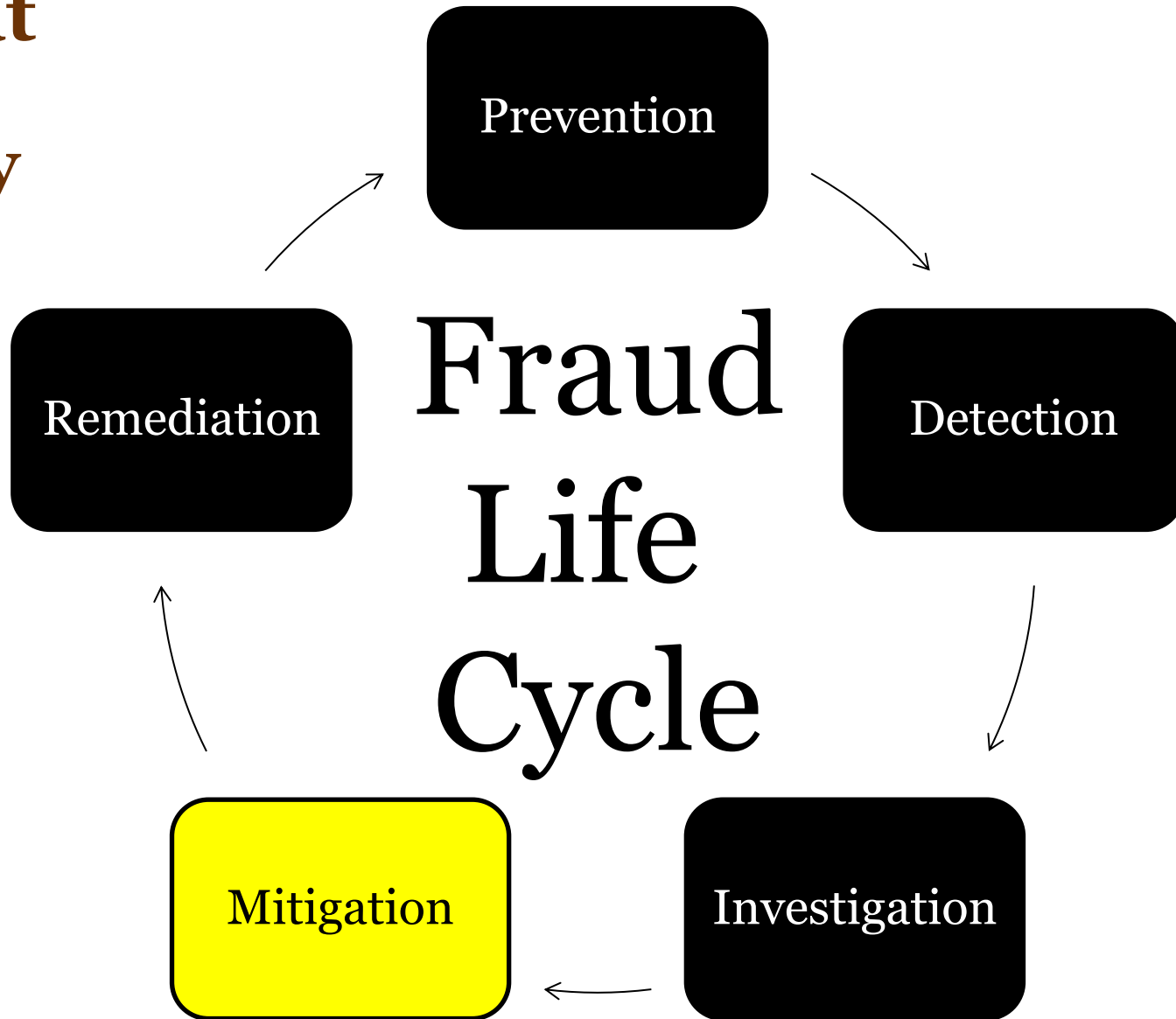


Polling Question #9

Federal agents cannot provide victims with sensitive information.

1. True.
2. False

What & Why

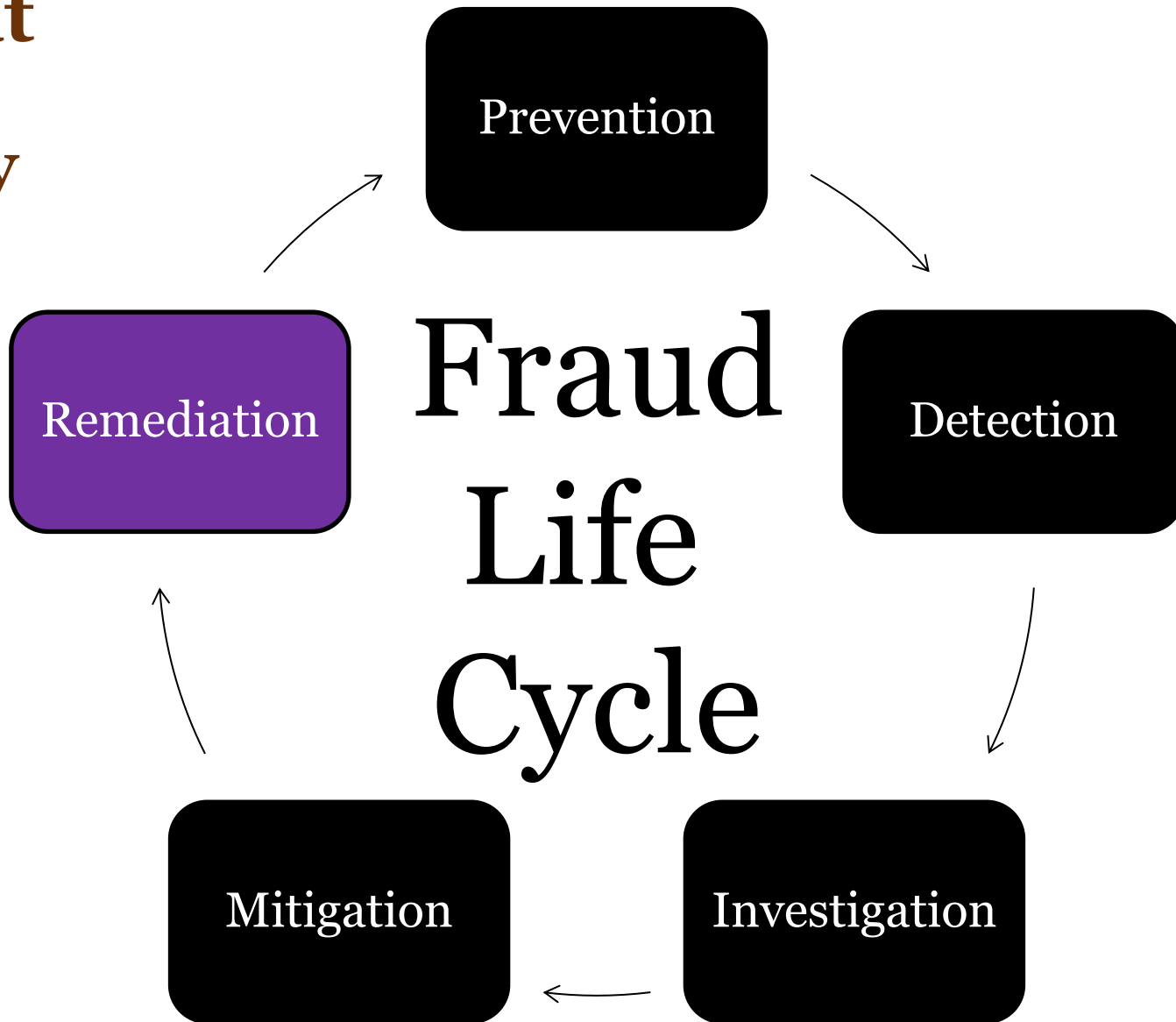


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Mitigation

- Stop the fraud
- Ensure never happens again
- Restore Trust To Stakeholders
- Develop Hard Control
- Assess Soft Controls
- Culture & Training

What & Why



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Remediation

- Make victim whole
- Discharge Employee(s)
- Civil lawsuit
 - Damages
- Prosecute
- Asset Forfeiture
- Recoup Money



Corruption



Corruption is Different

- No Paper Trail
- Lack of Real Knowledge
- Lack of Parallel Investigations
- Lack of the right controls
- Victims Never Learn of Fraud
- Underreported
- Root Cause Analysis



Definitions

Corruption: Involves the wrongful use of influence to procure a benefit for the actor or another person, contrary to a duty or the rights of others.

Public corruption: Involves a public official—elected or appointed—who has abused the office for personal gain.



Definitions

Bribery: Providing something of value to a person in a position of trust in an attempt to corruptly influence an official action or business decision.

Kickback: A form of bribe between a seller and a buyer of goods or services in which the buyer receives an undisclosed percentage or other payment in exchange for the seller receiving favorable treatment.



Conflict of Interest

An Official or Employee

- Taking an interest in a transaction/enterprise
- Adverse to the principal
- Benefits the official
- Not disclosed



Conflicts v. Bribery

- Most bribery schemes could also be considered conflicts of interest.
- Primary difference between the two schemes is in the fraudster's motive:
 - Bribery motive = Kickback
 - Conflict of interest motive – hidden interest



Forensic Posture

- Code of Conduct
- Code of Ethics
- Civil Fraud
- Criminal Fraud

Public & Private Sector

- Government
 - Laws and regulations
 - Zoning
 - Purchasing products and services
- Private Sector
 - Purchasing assets, products, and services
- Methods
 - Conflict of interest
 - Bribery

Case Examples



Jack Abramoff

“They realize that spending millions to save billions is just good business.”

– Congressional Lobbyist
Jack Abramoff



Former Commissioner Elaine Boyar

- Pled guilty to Two Fraud Counts
- \$78,000 “Advisor” kickback scheme of Fraud
- \$15,000 in credit card abuse



Rita Crundwell's

City of Dixon
Illinois

**\$54 Million
Fraud**



Rita
Crundwell

Municipal Fraud

- Rita Crundwell, treasurer/ comptroller for Dixon, Illinois.
- Largest municipal fraud, \$53.7.
- Opened account “Reserve Sewer Capital Development Account” as only signatory.
- No Internal Controls
- Caught while on vacation.

Polling Question #10

The largest municipal fraud ever was committed by:

1. Rita Crundwell
2. Jack Abramoff
3. Jean Wolinski-Hobbs
4. Vic Hartman

Al J. Hurley

- County Commissioner, Sumter County Board of Commissioners
- Detroit Defendant Terrance Parker
- \$5,000 Bribe for Andersonville Depot
- \$15,000 Bribe for a race track project with two fictitious insider contacts.
- Convicted:
 - Extortion
 - Government Program Fraud
 - Lying to an FBI Agent



Corruption: At Risk Government Officials



Elected
Officials



Subject
Matter Expert



Procurement
Official

City of Atlanta Bribery



Mitzi Bicker
“Bag Women”
Former Director of Human Resources
City of Atlanta

Received \$2 Million in Bribes
Steered \$20 Million in Contracts



E. R. Mitchell
Contractor



Charles Richards
Contractor

Atlanta Bribery Scandal

City of Atlanta Bribery



Jo Ann Macrina
Commissioner Watershed Management
City of Atlanta



Adam Smith
Chief Procurement Officer
City of Atlanta



Jeff Jafari
Contractor

City of Atlanta Corruption



Larry Scott
Contract Compliance Manager
City of Atlanta

Legal Solutions Are Inadequate

- Federal v. State
- Policies – Ethics – Criminal Statutes
- Federal Statutes:
 - 18 USC 1341 (Mail Fraud)(1872)
 - 18 USC 1343 (Wire Fraud)(1952)
 - 18 USC 1346 (Honest Services)(1988)
- McNally v. United States (1987)
- Skilling v. United States (2010)
- McDonnell v. United States (2016)

Virginia Gov. Bob McDonnell



Governor Robert McDonnell & Wife Maureen McDonnell

McDonnell v. United States

“There is no doubt that this case is distasteful; it may be worse than that. But our concern is not with tawdry tales of Ferraris, Rolexes, and ball gowns. It is instead with the broader legal implications of the Government’s boundless interpretation of the federal bribery statute. A more limited interpretation of the term “official act” leaves ample room for prosecuting corruption, while comporting with the text of the statute and the precedent of this Court.”

- United States Supreme Court, *McDonnell v. United States*, 2016

Federal Conflicts of Interest

- Federal Employee
- Participates in decision making process (broadly defined)
- Has a financial interest
- Exception: Full disclosure & approval
- 18 U.S.C. 208

Federal Statutes

Bribery	Illegal Gratuity
Giving or receiving (or offering or soliciting)	Giving or receiving (or offering or soliciting)
Any “thing of value”	Any “thing of value”
To influence future act	For or because of act
An official act	An official act
18 U.S.C. 201(b)	18 U.S.C. 201(c)

Transparency International

Corruption Perception Index 2017 Rankings

#	Country	#	Country	#	Country	#	Country
1	New Zealand	46	Georgia	91	Albania	135	Honduras
2	Denmark	46	Malta	91	Bosnia and Herzegovi	135	Kyrgyzstan
3	Finland	48	Cabo Verde	91	Guyana	135	Laos
3	Norway	48	Rwanda	91	Sri Lanka	135	Mexico
3	Switzerland	48	Saint Lucia	91	Timor-Leste	135	Papua New Guinea
6	Singapore	51	Korea, South	96	Brazil	135	Paraguay
6	Sweden	52	Grenada	96	Colombia	135	Russia
8	Canada	53	Namibia	96	Indonesia	143	Bangladesh
8	Luxembourg	54	Italy	96	Panama	143	Guatemala
8	Netherlands	54	Mauritius	96	Peru	143	Kenya
8	United Kingdom	54	Slovakia	96	Thailand	143	Lebanon
12	Germany	57	Croatia	96	Zambia	143	Mauritania
13	Australia	57	Saudi Arabia	103	Bahrain	148	Comoros
13	Hong Kong	59	Greece	103	Côte D'Ivoire	148	Guinea
13	Iceland	59	Jordan	103	Mongolia	148	Nigeria
16	Austria	59	Romania	103	Tanzania	151	Nicaragua
16	Belgium	62	Cuba	107	Armenia	151	Uganda
16	United States of America	62	Malaysia	107	Ethiopia	153	Cameroon
19	Ireland	64	Montenegro	107	Macedonia	153	Mozambique
20	Japan	64	Sao Tome and Principe	107	Vietnam	155	Madagascar
21	Estonia	66	Hungary	111	Philippines	156	Central African Republic
21	United Arab Emirates	66	Senegal	112	Algeria	157	Burundi
23	France	68	Belarus	112	Bolivia	157	Haiti
23	Uruguay	68	Jamaica	112	El Salvador	157	Uzbekistan
25	Barbados	68	Oman	112	Maldives	157	Zimbabwe
26	Bhutan	71	Bulgaria	112	Niger	161	Cambodia
26	Chile	71	South Africa	117	Ecuador	161	Congo
28	Bahamas	71	Vanuatu	117	Egypt	161	Democratic Rep. of the Congo
29	Portugal	74	Burkina Faso	117	Gabon	161	Tajikistan
29	Qatar	74	Lesotho	117	Pakistan	165	Chad
29	Taiwan	74	Tunisia	117	Togo	165	Eritrea
32	Brunei Darussalam	77	China	122	Azerbaijan	167	Angola
32	Israel	77	Serbia	122	Djibouti	167	Turkmenistan
34	Botswana	77	Suriname	122	Kazakhstan	169	Iraq
34	Slovenia	77	Trinidad and Tobago	122	Liberia	169	Venezuela
36	Poland	81	Ghana	122	Malawi	171	Korea, North
36	Seychelles	81	India	122	Mali	171	Equatorial Guinea
38	Costa Rica	81	Morocco	122	Nepal	171	Guinea Bissau
38	Lithuania	81	Turkey	122	Moldova	171	Libya
40	Latvia	85	Argentina	130	Gambia	175	Sudan
40	Saint Vincent & Grenadines	85	Benin	130	Iran	175	Yemen
42	Cyprus	85	Kosovo	130	Myanmar	177	Afghanistan
42	Czech Republic	85	Kuwait	130	Sierra Leone	178	Syria
42	Dominica	85	Solomon Islands	130	Ukraine	179	South Sudan
42	Spain	85	Swaziland	135	Dominican Republic	180	Somalia

Foreign Corrupt Practices Act

- Two types of offenses
- 1. Bribery Provision: Corrupt payments by a U.S. citizen (including corporation) to a foreign official to obtain or retain business.
- 2. Books & Records Provision
 - Books and records must accurately reflect the underlying transaction.
 - Adequate Internal Controls

FCPA

- DOJ/FBI Jurisdiction
 - Exclusive jurisdiction for criminal enforcement
 - ✓ Bribery Provision
 - ✓ Accounting Provisions (Books & Records, Internal Controls)
 - Civil enforcement for non-public companies
 - ✓ Bribery Provision (not accounting provisions)
- SEC Jurisdiction
 - SEC registrants only (public companies)
 - Civil enforcement only

FCPA

- Third Party Intermediaries
 - Audit Rights in Contract
- Criminal Defenses to Bribery
 - Facilitation Payment: “routine governmental action” that involves “non-discretionary acts”
 - Expense or payment is reasonable or a bona fide expenditure
 - Payment is legal in the country where it is paid

FCPA: Guidance

- DOJ and SEC's 2012 Resource Guide
- U.K. Ministry of Justice's Bribery Act 2010 Resource Guidance
- OECD's Good Practice Guidance on Internal Controls, Ethics, and Compliance
- ISO 37001 is an “international good practice” for managing bribery risk

Procurement Corruption

- Bid Suppression or Bid Rotation
- Bid Tailoring
- Emergency Contract
- Insider Information
- Need Recognition
- Sole Source Contract
- Split Purchase
- Unbalanced Bid



Prevention

What are the Root Causes of Corruption?



Social Compact of Reciprocity

“The Rule for Reciprocation—The rule says that we should try to repay, in kind, what another person has provided us. . . . By virtue of the reciprocity rule, then, we are obligated to the future repayment of favors, gifts, invitations, and the like.”

—Robert B. Cialdini,
Influence: The Psychology of Persuasion



Polling Question #11

Social Compact of Reciprocity is an explanation for which type of fraud?

1. Financial Statement Fraud
2. Asset Misappropriation
3. Corruption
4. Non-occupational Frauds

Big Bang Theory: Gift Exchange

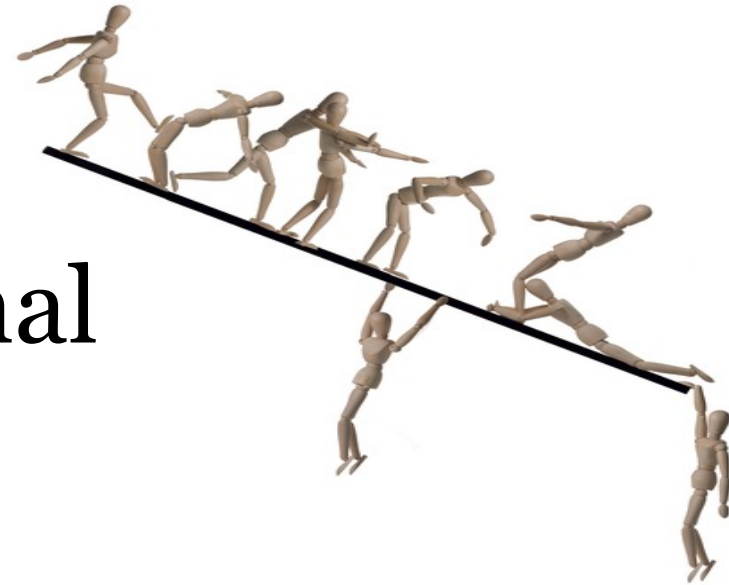


Gateway Drug to Corruption



Why Corruption Occurs?

- Social Compact of Reciprocity
- Longevity in Office or Position
- Financial Need
- Contact with vendors
- Predatory v. Situational
- Slippery Slope



Prevention

- Law, Executive orders, Ordinances
- Polices
 - Conflicts of Interest
 - Fraud Policy
 - Ethics Policy
- Corruption Awareness
- Meaningful Live Training
- Enforcement Mechanisms
- Criminal Prosecutions

Conflict-of-Interest Policy

- Companies should have a conflict-of-interest policy.
- The policy should be in writing and signed each employee.
- There should be training to the policy.
- High-level employees, especially in government, should disclose sources of income and investment holdings.

Detection

Audit employee disclosures



Internal Investigations | Forensic Accounting | Fraud Mitigation

The Hartman Firm, LLC is a law firm and Certified Public Accountant (CPA) firm in Atlanta, Georgia serving individuals, businesses, government entities, and outside counsels. The founder is a retired FBI Agent.

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Forensic Accounting

Quantifying facts for a legal resolution.

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Whistleblower Representation

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Coastal Carolina Chapter ACFE PowerPoint

FBI BEC Public Service Announcement

Anti-Fraud Playbook

IIA Three Lines of Defense

COSO - Fraud Risk Management Guide (2023)

Managing the Business Risk of Fraud

Polling Question #12

By going to [Hartmanfirm.com](https://www.hartmanfirm.com), clicking on the “Resources” tab, and scrolling to the bottom, you will have access to:

1. Today’s PowerPoint Slides
2. Fraud Risk Management Guide (2023)
3. Other Bonus Material
4. All of the above.

Questions



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