Fraud and Corruption

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A Convenience Perspective

Petter Gottschalk

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Introduction

The Wolf of Wall Street was famous for fraud and corruption. Jordan Belford's story of greed, power and excess is a tale that he documented in his book that later became a movie. Among the many episodes in his book, Belfort (2008: 151) tells how he as an American used a UK family member to conduct money laundering in a Swiss bank:

> Plausible deniability was obviously an international obsession among white-collar criminals (…) "But to answer your question, I'm planning to use a family member with a different last name than mine. She's from my wife's side, and she's not even a U.S. citizen, she's British. I'm flying to London tomorrow morning, and I can have her back here the day after tomorrow – passport in hand – ready to open an account at your bank."
>
> Saurel nodded once and said, "I assume you trust this woman implicitly, because if you don't, we can provide you with people who will use their own passports. These people are entirely unsophisticated – mostly farmers and shepherds from the Isle of Man or other tax-free havens such as that – and they are one hundred percent trustworthy. Furthermore, they will not be allowed access to your account. But I'm sure that you have already taken this woman's trustworthiness into consideration. However, I would still suggest that you meet with a man named Randall Franks. He is a professional with matters such as these, especially in the creation of documents. He can create bills of sale, financial letters, purchase orders, brokerage confirmations, and almost anything else within reason. He is what we call a trustee. He will help you form bearer corporations, which will further insulate you from the prying eyes of your government and allow you to break up your ownership of public companies into smaller increments, to avoid filing any of the requisite forms for over five percent stock ownership. He would be invaluable to a man like you – in all aspects of your business – both foreign and domestic."

The social and economic impact of Belford's fraud and corruption was enormous for all direct and indirect victims. Yet Belford is just one of many white-collar criminals who abuse there trusted positions to harm individuals, organizations, and nations for personal and business benefits. As is evident from his book, Belfort (2008) knew what he was doing, and he found it convenient. It was convenient to run his business illegally the way he did to enjoy power and wealth.

The theory of convenience has emerged as an integrated explanation of white-collar crime. For members of the elite in trusted positions, financial crime is often a convenient solution to problems and a convenient path to explore and exploit possibilities. Conveniently oriented people choose alternative actions that represent savings in time and effort, and avoidance of stress and pain. In a professional setting, white-collar offenders are able to commit crime as well as conceal crime among seemingly legitimate activities.

Belfort's (2008) book stands out as an exception among autobiographies by convicted white-collar offenders. Normally, suspected and convicted offenders tend to apply neutralization techniques when describing their activities. Neutralization techniques include denial of injury, denial of responsibility, loyalty to higher authority, and legal mistake. Typical examples include Kerik (2015) for convicts and Montella (2016) for suspects.

This book starts by presenting fraud (Chapter 1) and corruption (Chapter 2). Fraud and corruption are typical kinds of financial crime committed by white-collar offenders. White-collar crime is part of the shadow economy as described in Chapter 3. The theory of convenience is presented in Chapter 4.

As indicated by the magnitude of the shadow economy in Chapter 3 as well as by the theory of convenience in Chapter 4, a minor fraction of offenders are caught and brought to justice, while the majority of offenders enjoy lack of detection.

As pointed out by Pickett and Pickett (2002), white-collar crime in terms of fraud and corruption has several characteristics:

- *It is deceitful*. People involved in white-collar crime tend to cheat, lie, conceal, and manipulate the truth.
- *It is intentional*. Fraud and corruption do not result from simple error or neglect, but involves purposeful attempts to illegally gain an advantage. As such, it induces a course of action that is predetermined in advance by the perpetrator.

- *It breaches trust*. Business is based primarily on trust in most countries. Individual relationships and commitments are geared toward the respective responsibilities of all parties involved. Mutual trust is the glue that binds these relationships together, and it is this trust that is breached when someone tries to defraud another person or business.
- *It involves losses*. Financial crime is based on attempting to secure an illegal gain or advantage, and for this to happen there must be a victim. There must also be a degree of loss or disadvantage. These losses may be written off or insured against or simply accepted. White-collar crime nonetheless constitutes a drain on individual, organizational, as well as national resources.
- *It may be concealed*. One feature of financial crime is that it may remain hidden indefinitely. Reality and appearance may not necessarily coincide. Therefore, every business transaction, contract, payment, or agreement may be altered or suppressed to give the appearance of legitimacy and regularity. Spreadsheets, statements, and sets of accounts cannot always be accepted at face value; this is how some frauds continue undetected for years and possibly indefinitely. While street crime is characterized by offenders who hide themselves, fraud and corruption is characterized by hidden crime. The white-collar offender continues in his or her position without any sign of criminal activity.
- *There may be an appearance of outward respectability*. Fraud and corruption may be perpetrated by persons who appear to be respectable and professional members of society, and may even be employed by the victim.

The *motive* for white-collar crime is illegal financial gain for personal profit or organizational advantage. The *modus* in white-collar offending is abuse of legitimate resources to commit and conceal crime. The *profile* of a white-collar offender is a person of respectability and high social status. The *consequence* of white-collar offending is financial damage and harm to individuals, organizations, and/or nations.

Chapter 1

Characteristics of Fraud

Fraud not only causes lost revenue for defrauded organizations. Indirect costs such as low employee morale, decreased productivity, ruined reputation and damaged brand image, need to be taken into account. Given this context, citizens, in general, and public authorities, regulators, and companies of all sizes, in particular, need to consider and be more knowledgeable about these matters taking proactive measures to help mitigate the risks and negative consequences involved.

Definition of Fraud

Fraud is deliberate deception to secure unfair or unlawful gain. Fraud can be defined as an intentional perversion of truth for the purpose of inducing another in reliance upon it to part with some valuable thing belonging to him or to surrender a legal right. Fraud is a misrepresentation of facts with the purpose of causing someone else to do something financially that the person otherwise would not have done. Fraud is a criminal deception intended to result in illegal financial gain. Fraud is intended to deceive others, typically by unjustifiably claiming or being credited with characteristics, accomplishments or qualities. Fraud is an intentional misrepresentation or concealment of an important fact upon which the victim is meant to rely, and in fact does rely, to the harm of the victim. Fraud is an intentional deception of a victim by false representation or pretense with the intent of persuading the victim to part with something of value and with the victim parting with the valuables in reliance on the representation or pretense and with the perpetrator intending to keep the valuables from the victim. Fraud is often the crime of getting money by deceiving people. Fraud is deliberate actions taken by management at any level to deceive, swindle, or cheat investors, other key stakeholders, banks or others (Steinmeier, 2016).

Fraud is an act or course of deception, an intentional concealment, omission, or perversion of truth, to (1) gain unlawful or unfair advantage, (2) induce another to part with some valuable item or surrender a legal right, or (3) inflict injury in some manner. Fraud is the crime of gaining money or financial benefits by a trick or by lying. Fraud is an intentionally deceptive action designed to provide the perpetrator with an unlawful gain. Fraud is a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment. Fraud is an intentional act within the course of one's professional activity that is illegal (Murphy and Free, 2015). A fraudulent practice is any act or omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other valuable benefit or to avoid an obligation. Fraud consists of some deceitful practice or willful device, resorted to with intent to deprive another of his or her right, or in some manner to cause harm.

There is a variety of fraud schemes. An example is *securities fraud* that includes asset fabrication, embezzlement, share price manipulation, and illegal guarantees (Cumming et al., 2015). Another example is financial reporting fraud that is misrepresentation by an agent of a publicly listed firm of the firm's condition. Fraudulent misrepresentation violates generally accepting accounting rules and regulations (Kang, 2008).

Another example is *bank fraud*, where an organization misrepresents own accounts to obtain a loan. Sometimes, borrowers and accounting professionals combine to engage in fraud for profit schemes.

If a person induces another person to buy his or her car by telling that it has low mileage (when the seller knows it has high mileage), and the buyer believes the seller and purchases the car at a higher price, then it is fraud. If a corporation intentionally overstates its revenue, and a stock buyer believes its financial statements and buys the corporation's stocks, then it is fraud (Huber, 2017). According to McMahon et al. (2016), improper recognition of revenue is one of the most common methods used in the preparation of fraudulent statements.

Financial statements are basic documents to reflect a company's financial status. Fraudulent financial reports are perpetrated to increase stock prices or to get loans from banks (Huang et al., 2017).

Causes of Fraud

Shi et al. (2017) studied financial fraud, where financial fraud occurs when managers take actions that deceive investors or other key stakeholders. It often involves lying about facts, failure to disclose material information, falsifying information performance, or covering up systematic problems. There may be benefits to financial fraud that motivate managers to engage in financial fraud actions, such as appearance of improved performance or increases in contingent compensation.

Shi et al. (2017) found that an organization's level of dedicated institutional ownership is positively associated with the likelihood of financial fraud. This may seem counterintuitive, as more interest and monitoring of performance from owners should be expected to reduce opportunities for deviant behavior. However, dedicated owners' persistent expectations may cause managers to commit crime, even though managers know it is wrong, and even though it might be detected. Thus, strict governance by owners may have a paradoxical effect: It leads to continuously expanding control, but at the same time, reduces managerial loyalty.

The fraud triangle is a three-leg model for explaining the factors that cause someone to commit fraud (Cressey, 1953). The fraud triangle consists of opportunities, incentives, and rationalizations (Brown et al., 2016). Opportunities are circumstances that allow a misrepresentation to occur. Incentives and pressures are reasons to misrepresent. Rationalizations and attitude represent a frame of mind that justifies the misrepresentation. The fraud triangle emphasizes that the risk of fraud is greater when all three conditions – incentives/pressure, opportunity, and attitude/rationalization – are present (Hansen, 2008: 4):

> Incentive or pressure provides a reason to commit fraud that could be financial, work-related, family-tied, or emotional. Opportunities are circumstances that exist at the organization that allow management or others the opportunity to commit fraud. Ineffective or absent internal controls or management's ability to override controls coupled with a low perceived risk of being discovered are examples of opportunities. Attitude, rationalization, or lack of integrity leads to the justification for committing fraudulent acts.

Similarly, MacGregor and Stuebs (2014) describe incentives as economic, social, and moral; opportunity as situational characteristics such as information asymmetries, moral hazard opportunities, and regulation and monitoring characteristics, policies and procedures; and rationalization based on sensitivity and awareness, moral judgment, moral motivation, and moral character.

Murphy and Dacin (2011: 613) discuss psychological pathways to fraud, where the causes of fraud can be found in decision-making processes:

> In the first phase, top management makes a "rational" decision to commit fraud by concluding that benefits of committing fraud outweigh the costs. They are expected to experience negative affect, but use rationalization to reduce or avoid it. In the next phase, middle managers are told by top management to commit fraud. They can take one of three avenues, consistent with each the three pathways: (1) blindly do what they are told, without thought, (2) rely on their own intuition and/or reasoning and decide to commit fraud because they are provided a rationalization by top management, or (3) refuse to commit fraud. The first two lead to continued fraud while upholding one's own ethical values. Finally, new employees look for signals indicating socially acceptable behavior within the organization. The climate encourages fraudulent behavior as normal and acceptable, so new employees commit fraud without thinking. The end result is continual fraud, with individual organizational members not thinking about it and believing their ethical values are upheld.

The fraud triangle entails (1) an individual's incentives and pressures to act fraudulently, (2) the perceived opportunity to commit fraud, and (3) the attitude of the individual which is linked to the rationalization of a fraudulent act (Steinmeier, 2016). Examples of pressures and incentives include meeting analysts' forecasts, the need for external financing, poor performance, financial distress, competition or market saturation, the threat of bankruptcy, and the desire for personal bonus. Examples of opportunities include related party transaction, complex transactions, insufficient board oversight, lack of internal control, easy access to resources, and institutional deterioration. Examples of attitude and rationalization include lack of ethics, lack of self-control, and top management turnover (Huang et al., 2017).

The fraud triangle is an explanatory framework for financial fraud, originally developed by American criminologist Donald Cressey from his interviews with embezzlers. In accordance with the three elements – motivation, opportunity, and rationalization, Schuchter and Levi (2016) conducted an empirical study of thirteen company fraudsters in Austria and Switzerland. They found that all three fraud triangle elements are highly influenced by the corporate culture in companies.

Rather than a triangle, Wolfe and Hermanson (2004) suggest a fraud diamond where they introduce capability in addition to incentive, opportunity and rationalization. Capability includes personal traits and abilities that play a major role in whether fraud may actually occur even with the presence of the other three elements. However, as we study white-collar crime, capability is simply included in the characteristics of white-collar offenders. A white-collar criminal has the necessary traits and abilities to be a person to commit fraud. First, the person's position or function within the organization furnishes the ability to create or exploit an opportunity for fraud not available to others. Second, the right person for a fraud is smart enough to understand and exploit internal control weaknesses and to use position, function, or authorized access to the greatest advantage. Third, a white-collar offender has a strong ego and great confidence that he or she will not be detected, or the person believes that he or she could easily talk himself or herself out of trouble if caught. Fourth, a successful fraudster can coerce others to commit or conceal fraud. A person with a very persuasive personality and authority may be able to convince others to go along with a fraud or to simply look the other way. Fifth, a successful fraudster lies effectively and consistently. Finally, a successful fraudster deals very well with stress. Committing a fraud and managing the fraud over a long period of time can be extremely stressful. A white-collar offender is able to manage this kind of stress as it just adds to all other kinds of stress factors implicit in being a member of the elite and sustaining membership in the privileged upper-class society.

When the theory of convenience is introduced later in this book, the fraud triangle is expanded into the relative concept of convenience and the organizational context where a potential offender has legitimate access.

Roden et al. (2016) tested the fraud triangle by comparing a sample of firms with fraud violations to a sample of firms with no fraud violations. They found significant explanatory variables representing all three sides of the fraud triangle. In terms of incentives and pressures, they used growth in total assets as a measure of financial distress, and found a positive relationship between this measure of growth and fraud. In terms of opportunities, they used combined leadership position of chairperson and CEO as well as tenure, and found a significant influence on fraud. In terms of rationalizations and attitude, they used the fraction of insiders, and found that less independence by a lower percentage of independent board members increases the likelihood of fraud.

Consequences of Fraud

Yenkey (2018: 48) argues that fraud triggers integrity-based distrust in a transaction relationship, as fraud is not about the competence of the partner to complete the agreed-upon action but rather his or her willingness to do so without opportunism:

> Positive transactions increase evaluations of trustworthiness, and untrustworthy behavior has a disproportionately negative effect. A common and unsurprising finding in the micro-level trust literature is that people avoid partners who violate their trust.

For a fraud to have a negative impact outside the violated transaction relationships, such as a bank versus its client company, there needs to be some pathway through which the attribution of blame diffuses to institutions and organizations that did not perpetrate it. Social relations can be a pathway where knowledge about fraudulent behavior is disseminated. A fraudulent organization and its victims do not live in isolation in the business world. Fraud victims and their true business partners will avoid situations in which they expect fraud risks. Fraud victims will blame and distrust a fraudulent organization. Fraud victimization will stimulate recognition that many are in a disadvantaged position that they want to avoid (Yenkey, 2018).

Private Fraud Examinations

Fraud investigations into individuals and organizations by private investigators have increased in intensity. No amount of legislation can protect against dishonesty (Coburn, 2006). When an organization wants to investigate facts, causes and responsibilities for an incident, the investigation can be carried out by financial crime specialists and fraud examiners. Fraud examination has elements of intelligence, investigation as well as analysis, like we know it from police work. Characteristics of inquiries where the term fraud examination is used include fact finding, causality study, change proposals and suspect identification.

Fraud examination as intelligence emphasizes the systematic and goal-oriented collection of information that is transformed and analyzed according to a rigid procedure to detect suspects' capacity, dispositions and intentions. The purpose is to improve both prevention and detection of crime. Risk-based techniques can be applied to survey environments and persons in order to collect information on their moves. Intelligence can also be defined as the result of information collection about possible offenses and potential suspects to make conclusions about threats, point out problems and identify criminal activity with an intention to follow the case.

Fraud examination as investigation is systematic and goal-oriented collection of information to confirm or disconfirm that an action is crime and that the actor is a criminal. Investigation is to prepare evidence for court proceedings. An investigation occurs only when something wrong has happened, while intelligence occurs when something wrong might happen.

Fraud examination as analysis is the process of breaking down a complex material or subject into smaller pieces to improve understanding and insight into the case. Analysis is to create meaning based on data by manipulating, interpreting and reorganizing the structure of collected evidence. To analyze is to ask questions such as what, where, how, who, when, and why. What happened? How did it happen? Why did it happen? Elements of know-what, know-how and know why are created through analysis.

While fraud examination has elements of intelligence, investigation and analysis as we know it from police work, it is something different. For intelligence, something might happen. For investigation, something has happened. For analysis, evidence is to be produced. In fraud examinations, something might happen or something has happened. Fraud examiners do not know when they start their work.

Wikipedia applies the following definition of a private investigator:

> A private investigator (often abbreviated to PI and informally called a private eye), a private detective or inquiry agent, is a person who can be hired by individuals or groups to undertake investigatory law services. Private detectives/investigators often work for attorneys in civil cases. A handful of very skilled private detectives/investigators work with defense attorneys on capital punishment and criminal defense cases. Many work for insurance companies to investigate suspicious claims. Before the advent of no-fault divorce, many private investigators were hired to search out evidence of adultery or other conduct within marriage to establish grounds for a divorce. Despite the lack of legal necessity for such evidence in many jurisdictions, according to press reports collecting evidence of adultery or other "bad behavior" by spouses and partners is still one of the most profitable activities

> investigators undertake, as the stakes being fought over now are child custody, alimony, or marital property disputes.
>
> Private investigators can also be used to perform due diligence for an investor who may be considering investing money with an investment group, fund manager or other high-risk business or investment venture. This could serve to help the prospective investor avoid being the victim of a fraud or Ponzi scheme. By hiring a licensed and experienced investigator, they could unearth information that the investment is risky and or that the investor has suspicious red flags in his or her background. This is called investigative due diligence, and is becoming much more prevalent in the 21st century with the public reports of large-scale Ponzi schemes and fraudulent investment vehicles such as Madoff, Stanford, Petters, Rothstein and the hundreds of others reported by the SEC and other law-enforcement agencies.

Wells (2003) argues that becoming a fraud examiner – a kind of a financial detective – is not for everyone. Detectives – either in law enforcement or in the private sector – typically have distinct personality traits. They need to be as good with people as they are with numbers, and they need to be inclined to be aggressive rather than shy and retiring.

Gill and Hart (1997) found that the market for private fraud examinations is growing; because client companies are rarely keen to involve the police in fraud investigations a prosecution may expose them to speculation about their internal procedures. Corporate clients tend to take the greatest care to ensure the confidentiality of the investigations they commission. Private investigators receive instructions to examine various kinds of fraud.

As argued above, a successful fraudster lies effectively and consistently. Johnsen (2017) suggests the following approach to identify lies in private fraud examinations:

> Humans are not objective by nature. When acknowledging our subjective nature, our awareness will give us the ability to prevent our subjectivity from making premature hypotheses, which may blind our investigative skills. However, hypotheses are important parts of an investigation, as they give reason to possible stories. A hypothesis should be based on sufficient evidence collected prior to an interview of the suspect. Such evidence is often a result of forensic technology and analyses of collected documents and accounting materials. When we

have established the hypothesis, our susceptibility towards alternative facts may seem to be limited. Due to lack of consistent evidences, we may even fill in gaps based on our own imagination. We tend to do this to achieve coherence in our perception of reality. The most common way to react to statements that undermine our initial hypothesis is either to ignore it or to pay very little attention to it. Bottom line is that we do not want to hear them, thus making us anxious to change the subject. One skill that distinguishes a trained tactical interviewer from an unexperienced one is the genuine interest in statements that bring alternative facts to the table, even when they totally undermine the consolidated hypothesis. A trained interviewer who believes a statement to be a lie would nevertheless pursue information. The purpose is to get as many details about the contradictory facts as possible. The approach is to pay attention to the statement and to make notes out of it. When the suspect has finalized his statement, the investigator would typically refer to important parts of the statement and ask the suspect to give more details. After receiving more details about a certain issue, the investigator would refer to that detail and ask the suspect to elaborate even further. The technique is pretty much like peeling an onion – revealing all layers. Combined with active use of silence, it often extracts details that could provide important leads. By using this technique, the investigator achieves two goals at the same time. If the statement given by the suspect turns out to be the most reasonable course of events, it is important that the investigator is able to intercept it and gather as much information as possible. Secondly, if the statement turns out to be a lie, the more details such lie has been supported with, the easier it is to reveal it. It is much more difficult to construct a lie with specific details than to do so in general terms. **The lesson to be learnt is:** If you hear what you believe to be a lie, try to resist your basic instinctive reactions to reject it. Pay attention to it and ask for details. Test whether it corresponds with evidence already collected. Try to make it fit in. If it still does not fit in, it will most likely be proven not to be the truth.

Acar Investigated by Sidley

On March 12, 2009, Yusuf Acar, a mid-level manager at the District of Columbia's office of the chief technology officer (CTO) was arrested and charged with bribery, conspiracy, money laundering, and conflict of interest related to procurement improprieties. A few weeks later on April 9, the council of the district authorized an investigation into the nature and causes of the Acar fraud. The committee retained Sidley (2010) to conduct the investigation.

The Sidley (2010) investigation had three questions in its mandate. First, how did the fraud occur? Second, how did it go undetected for nearly four years? Third, what vulnerabilities existed in the procurement process that facilitated this fraud, and how can those vulnerabilities best be addressed to reduce the risk of recurrence of this type of fraudulent activity in the future?

The investigation consisted of data collection, data analysis, and witness interviews. Investigators studies district procurement policies, transaction data involving vendors receiving the most contracts, local supply schedule, and employees who made procurement request or oversaw contract fulfilment. Investigators interviewed more than 30 individuals, including current and former technology employees (Sidley, 2010).

FBI published on its website (http://www.fbi.gov/washingtondc/press-releases/2010/wfo081210a.htm):

> WASHINGTON—Yusuf Acar, the former acting Chief of Security Officer for the District of Columbia's Office of the Chief Technology Officer (OCTO), was sentenced today to two concurrent terms of 27 months in prison for his role in a bribery and kickback scheme. The sentence, in U.S. District Court for the District of Columbia, was announced by U.S. Attorney Ronald C. Machen Jr., Shawn Henry, Assistant Director in Charge of the FBI's Washington Field Office, and Charles J. Willoughby, inspector general for the District of Columbia.
>
> Acar, 41, of Washington, D.C., pled guilty on December 18, 2009 before the Honorable Henry H. Kennedy, Jr. to two-count information that charged him with bribery and engaging in monetary transactions in property derived from specified unlawful activity.
>
> During his guilty plea, Acar admitted that, between September 2005 and March 12, 2009, he accepted bribes on at least 59 occasions from Sushil Bansal, who owned a company called Advanced Integrated Technologies Corporation (AITC). Bansal paid Acar a total of $558,978.50 in bribe payments during this time. Acar also admitted to engaging in 17 transactions, each over $10,000, that involved the bribe money and which utilized financial institutions.

In addition to the 27-month prison term, Judge Kennedy ordered Acar to pay $558,978.50 in restitution. He will be on supervised release for three years after serving his sentence.

"The residents of the District of Columbia deserve an ethical government with ethical employees, and have the right to know that their money is being spent honestly and for the public good," said U.S. Attorney Machen. "The prison sentence in this case should send a strong message to any public official who may be tempted to accept a bribe or kickback that we will not tolerate corruption."

Acar has been held without bond since March 2009.

Bansal, 43, of Dunn Loring, Virginia, pled guilty in April 2010 to federal charges, as did his company. He was sentenced August 6, 2010 to two concurrent 20-month prison terms. He and his company were ordered to pay $844,765.50 in restitution to the District of Columbia government. He will be on three years of supervised release once he gets out of prison.

Earlier today, a second OCTO employee was sentenced to prison for his role in the scheme. Farrukh Awan, 38, of South Riding, Virginia, was sentenced to 14 months in prison and ordered to pay $156,807 in restitution. He also must forfeit $46,647.50 as part of the sentence. He will be placed on three years of supervised release once his prison sentence is completed. Awan pleaded guilty in November 2009 to conspiracy to commit wire fraud.

In announcing the sentence, U.S. Attorney Machen, FBI Assistant Director in Charge Henry, and D.C. Inspector General Willoughby commended the outstanding investigative work of the Special Agents from the FBI's Washington Field Office, and Special Agent Teddy Clark and the late Special Agent Lloyd Hodge of the D.C. Office of the Inspector General. They also acknowledged the efforts of U.S. Attorney's Office paralegals Diane Hayes, Tasha Harris and Maggie McCabe, former legal assistant Lisa Robinson, as well as Assistant U.S. Attorneys Thomas Hibarger and Glenn Leon, who prosecuted this case.

Chapter 2

Characteristics of Corruption

Corruption deters investments (both domestic and foreign), lessens growth, curbs trade, distorts the size and composition of government expenditures, deteriorates the financial system, and fortifies the underground economy. Furthermore, corruption causes increasing levels of poverty and income inequality.

This chapter is concerned with the definition of corruption as a concept, causes of corruption in terms of drivers, consequences of corruption in terms of implications, and control of corruption in terms of sanctions.

Definition of Corruption

There are several definitions of corruption that reflect different perspectives on the topic. Some definitions highlight corruption's illegal nature, such as illegal payment and abuse of position. Other definitions highlight corruption's economic nature, such as personal gain and corporate benefits. And yet other definitions work exclusively for one sector or business, such as public sector, where illegal payment to a public agents and government officials occurs.

A bribing actor and a bribed actor are at the core of corruption. There is a relationship between the two, where the bribing actor hopes for some favors from the bribed actor, while the bribed actor receives a benefit from the bribing actor. In most jurisdictions, both providing and receiving bribes represent violations of the law. However, it may vary how courts considered the seriousness of both roles. For example in Norway, a bribing actor is considered a less severe offender compared to a bribed actor. The bribing defendant receives on average a prison sentence of less than two