

First Friday Fraud Facts+

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QUESTIONS OR COMMENTS:

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The Idaho State Controller's Office distributes this newsletter as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.

Welcome to First Friday Fraud Facts+ (F4+). Past publications have addressed bribery to some degree. This edition will take a closer look at bribery and discuss how to prevent and detect the different types of bribery.

Bribery

Bribery is a form of corruption and it can be defined as giving or receiving something of value to influence the actions of another.¹ There are two types of bribery: kickbacks and bid-rigging. Kickbacks are undisclosed payments made by vendors to employees of purchasing companies (i.e., a vendor and a corrupt employee from a purchasing company collude to have the vendor overcharge the company, the corrupt employee helps cover up the overbillings in order to receive a portion of the overpayment from the vendor)². Bid-rigging is "when businesses, that would be expected to compete for a contract, secretly conspires to raise prices or lower the quality of goods or services for purchasers who wish to acquire products or services through a bidding process."³

The United States takes a strong stand against bribery, which is why the Foreign Corrupt Practices Act (FCPA) was created in 1977. There was concern that the FCPA might put the United States at a disadvantage for global competition since it was unlikely other countries would adopt such a law.⁴ However, this isn't the case; "overall, attention to corruption and related practices of companies and countries is on the rise."⁴ The use of bribery to influence others for advantageous business purposes doesn't outweigh the overwhelming disadvantages that come from bribery. Some disadvantages include: consumers altering their buying activities, employees leaving their employers, and investors taking notice of companies that are unethical.⁴ Harvard Business School Professor, George Serafeim, analyzed the negative effects of bribery on corporate performance and found that the biggest problem was the negative impact it had on employee morale.⁵ This is important because studies show employee morale is directly related to an organization's success.⁵

Types of Bribe Payments

Bribes aren't always in the form of cash payments. Below is a list of other forms of bribes:

- Expensive gifts
- Paid vacations
- Lavish entertainment



- Employment of family members
- Payment of educational expenses for family members
- Overpaying for assets purchased
- Subsidizing rents or mortgages
- Leasing vehicles
- Providing hidden interests in other companies
- Providing loans with favorable terms (i.e., an interest free loan)^{1,6}

Preventing and Detecting Kickbacks

Controls that can prevent or detect kickback schemes include:

- Separate purchasing, receiving, storing of goods, and cash disbursement duties
- Maintain an updated vendor list
- Routinely monitor prices paid for goods and services
- Monitor trends in the cost of goods and services purchased
- Establish price thresholds for materials
- Check quality of goods delivered
- Compare actual expenditures to budgeted amounts
- Review organizational buying patterns
- Establish written policies prohibiting acceptance of gifts or favors and include a “Right to Audit” clause in vendor contracts ²

Preventing and Detecting Bid-Rigging

Controls that can prevent or detect bid-rigging schemes include:

- Monitor price trends
- Design the bidding process for the highest possible participation (i.e., reduce the cost of bidding)
- Be wary of very large, unexplainable price differences among bidders
- Look for patterns in the bidding process or in the bidding contracts (i.e., the same person always being the lowest bidder or the bidding contracts appear to have been prepared by the same person or jointly between two or more contractors)
- Watch for losing bidders that appear as subcontractors
- Always keep updated vendor lists
- Watch for qualified bidders that fail to submit contract proposals ^{2,3}

Fraud Case

A case involving “widespread corruption in FIFA over the past two decades”⁷ was publicly announced on May 27, 2015. FIFA, the Federation of International Football Association, was charged by the F.B.I. for corruption involving bids for two World Cups as well as marketing and broadcast deals. There were a total of 14 people charged, including senior soccer officials, an intermediary, and sports-marketing executives from the United States and South America. Seven of the FIFA executives were arrested on May 27, 2015.⁸ The sports-marketing executives are “accused of paying more than \$150 million in bribes and kickbacks in exchange for media deals associated with major soccer tournaments.”⁷



On May 29th FIFA President Sepp Blatter was “elected to his fifth four year term as FIFA president.”⁸ On June 2nd, four days after his re-election Blatter stepped down as president. Blatter had claimed that he would “take the responsibility to bring back FIFA,” yet he stepped down only four days after his re-election. The F.B.I. is continuing its work on the case of corruption within FIFA and Blatter’s involvement.

¹ “Guide to Combating Corruption & Fraud in Development Projects,”

<<http://guide.iacrc.org/potential-scheme-bribes-and-kickbacks/>> accessed on June 4, 2015.

² “Corruption and the Human Factor”

<<http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CB4QFjAA&url=http%3A%2F%2Fhigheredbcs.wiley.com%2Flegacy%2Fcollege%2Fkranacher%2F047043774X%2Fppt%2Fch13.ppt&ei=5eJtVbyHE5SSzoQSpz4CQDQ&usq=AFQjCNEcKmOk03sy8BE-zpzO183W197wAg>> accessed on June 4, 2015.

³ “Guidelines for Fighting Bid Rigging in Public Procurement”

<<http://www.oecd.org/competition/cartels/42851044.pdf>> accessed on June 4, 2015.

⁴ Teresa K. Beed, Maureen J. Fleming, and Nader H. Shoostari “Bribery and the U.S. Foreign Corrupt Practices Act: Do They Hinder Global Competition?”

<http://www.newaccountantusa.com/newsFeat/wealthManagement/bribery_art.pdf> accessed on June 4, 2015.

⁵ “The Real Cost of Bribery”

<<http://www.forbes.com/sites/hbsworkingknowledge/2013/11/05/the-real-cost-of-bribery/>> accessed on June 4, 2015.

⁶ Craig L. Greene “Bribery, Kickbacks, and Payoffs”

<http://www.mcgovngreene.com/archives/archive_articles/Craig_Greene_Archives/bribery-kickbacks-payoffs.html> accessed on June 4, 2015.

⁷ Matt Apuzzo, Stephanie Clifford, and William K. Rashbaum, “FIFA Officials Arrested on Corruption Charges; Blatter Isn’t Among Them”

<<http://www.nytimes.com/2015/05/27/sports/soccer/fifa-officials-face-corruption-charges-in-us.html>> accessed on June 4, 2015.

⁸ Austin Knoblauch and Barry Stavro, “A Timeline on the FIFA Scandal”

<<http://www.latimes.com/sports/soccer/la-sp-fifa-scandal-timeline-20150603-story.html>> accessed on June 4, 2015.