



Avoiding Fraud and Corrupt Practices

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IES Abroad
AIEA Conference
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Types of Corruption



• Bribery



Extortion

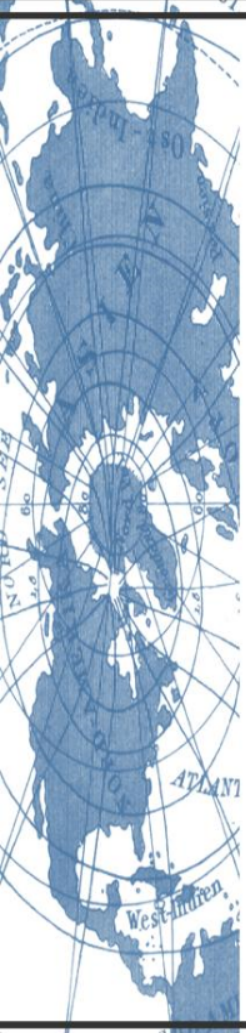


• Embezzlement



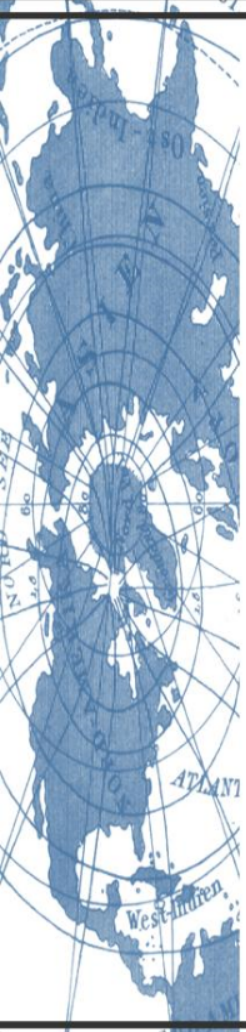
Grey Market

Avoiding Fraud and Corrupt practices

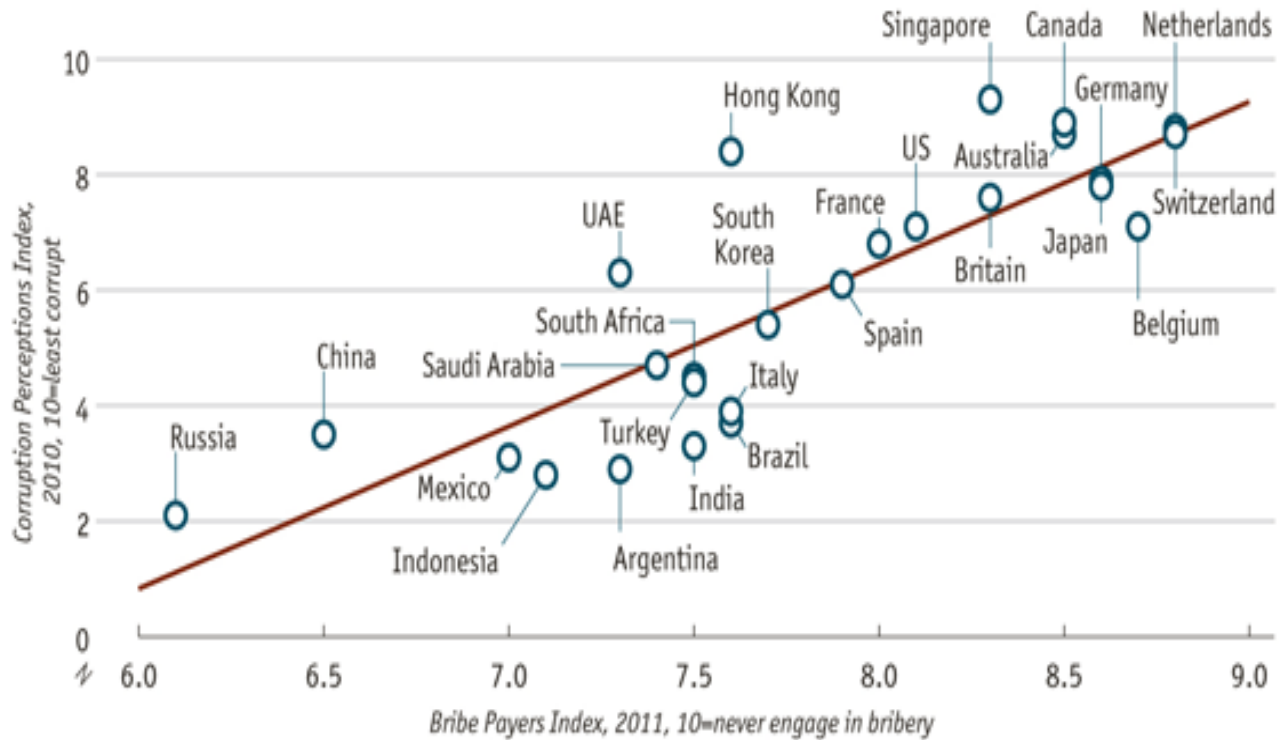
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- Rules, protocols, guidelines!
 - Organizational Culture.
 - Legal contexts.
 - Audit!
 - Train staff.

 - Trust everyone and no one.

Prevalence of Corrupt Practices



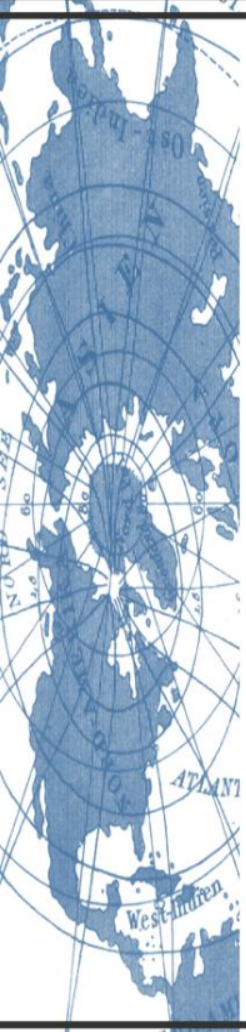
Perceived corruption levels by country and companies' propensity to bribe



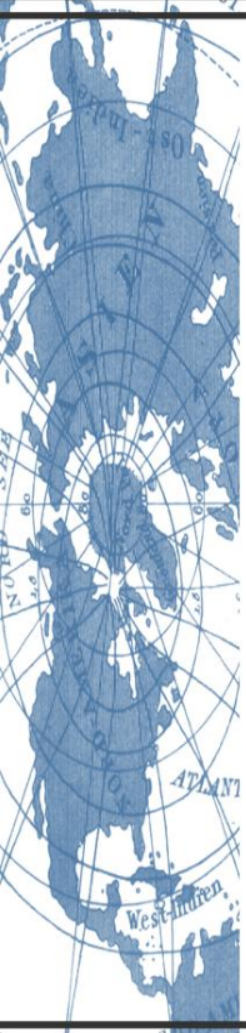
Source: Transparency International

Foreign Corrupt Practices Act

- Law in U.S. since 1977
- All OECD members have similar laws



OECD convention signers



 [Argentina](#)

 [Australia](#)

 [Austria](#)

 [Belgium](#)

 [Brazil](#)

 [Bulgaria](#)

 [Canada](#)

 [Chile](#)

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 [Turkey](#)

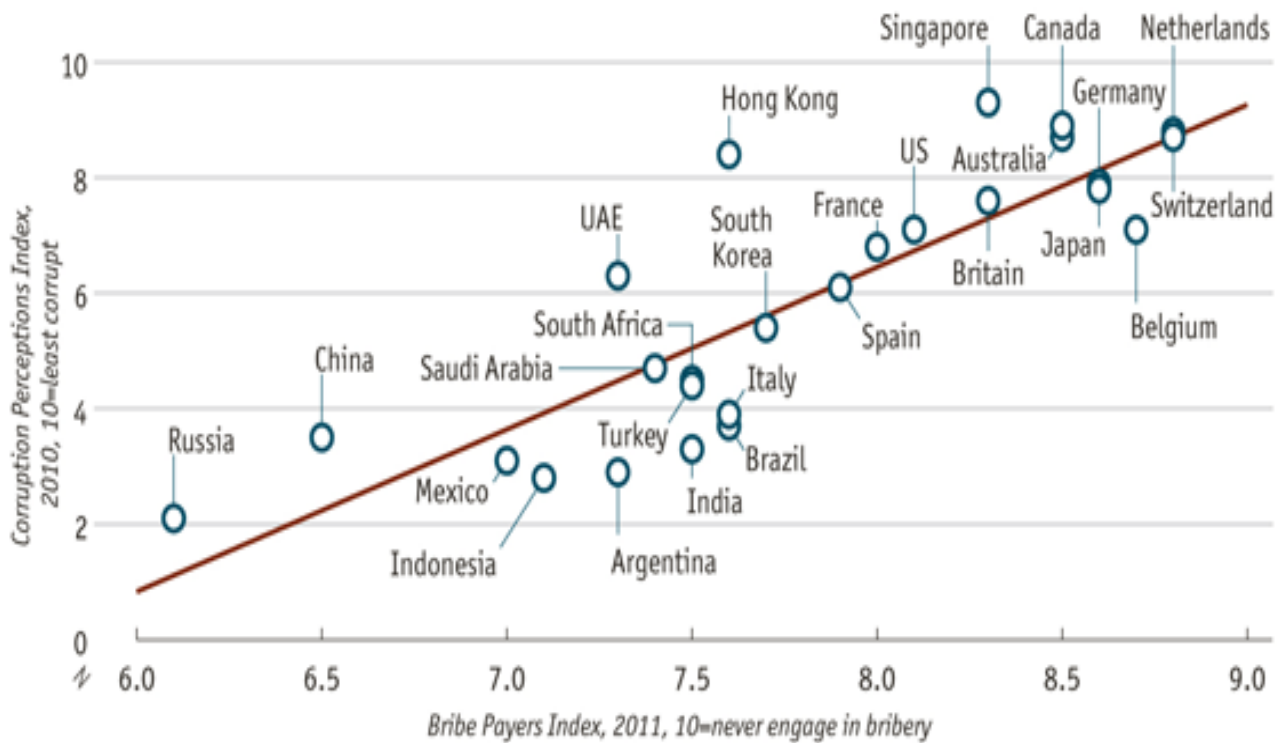
 [United Kingdom](#)

 [United States](#)

Prevalence of Corrupt Practices



Perceived corruption levels by country and companies' propensity to bribe



Source: Transparency International

Foreign Corrupt Practices Act, 1977, prohibits

- Any individual, firm, officer, director, employee, agent of firm, stockholder acting on behalf of firm, from
 - acting with corrupt intent, to make payment to a foreign official (regardless of rank), foreign political party or official, candidate for foreign political office,
 - To induce the recipient to misuse his official position or wrongfully direct business.

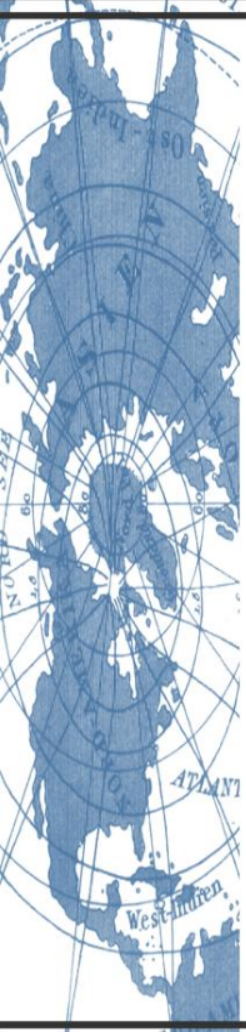




- Criminal
 - Up to 5 years in prison and up to \$2 million fine.
- Civil
 - AG or SEC or Competitor may bring action to enjoin or punish.
- Those in violation may be barred from doing business with the Federal govt.



- U.S. Justice Department priority
- Greater enforcement
- Higher Fines
- Prosecution of businesses as well as officials



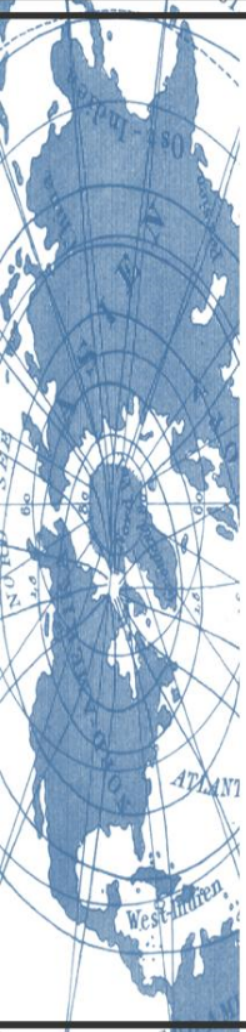
Exceptions to FCPA

- Size of payment
- Routine governmental action
- The seniority of the governmental official .
- Discretionary or
- Required approvals
- Third Parties
- Accurate recording
- Monitoring

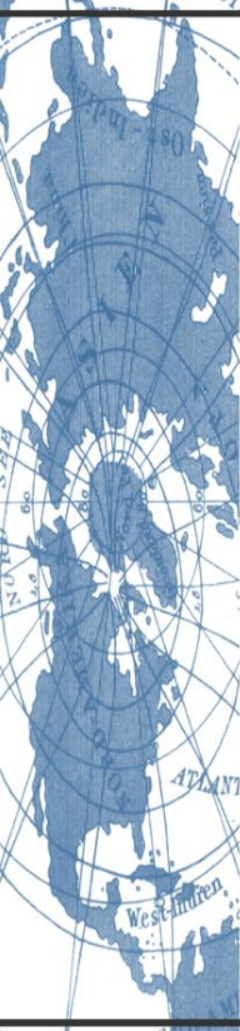


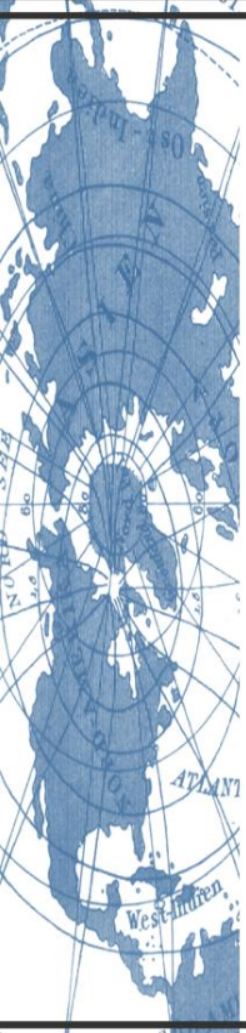
Exceptions to FCPA

- Routine governmental action” does not include any decision by a foreign official to award new business or to continue business with a particular party.

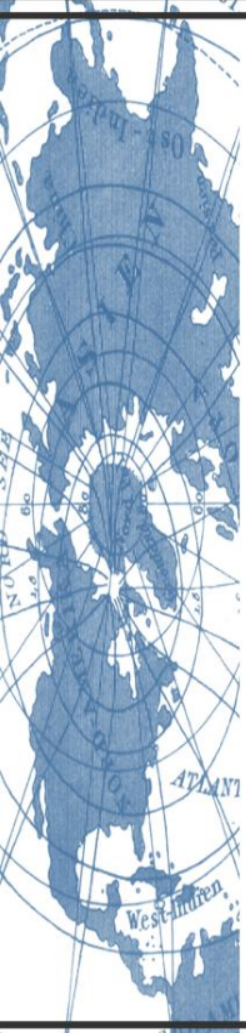


Private to Private bribery

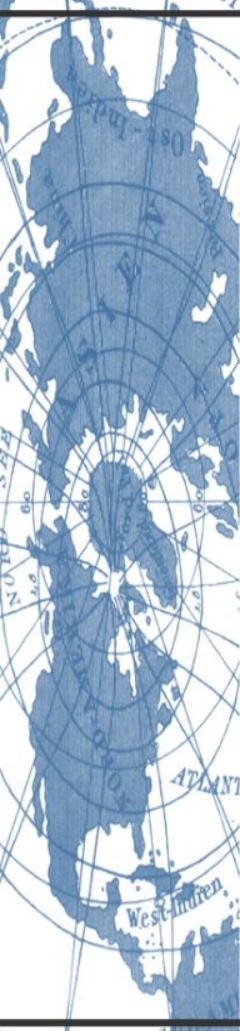
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- Criminalized in some countries including
 - UK
 - Hong Kong
 - China
 - Malaysia
 - Germany
 - Spain
 - United Nations Charter against corruption of 2005 mentions encourages criminalization

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- Fees demanded by dishonest officials for performing their duties.
 - Fees demanded by representatives of purveyors for fulfilling their agreements.

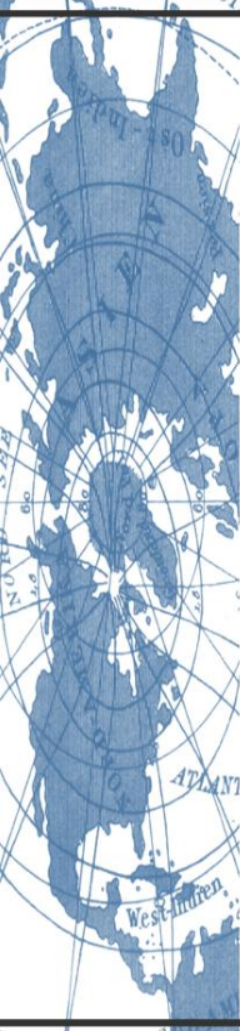
Extortion avoidance

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- Implement policy
 - Reporting system
 - Training
 - good relations with governmental authorities

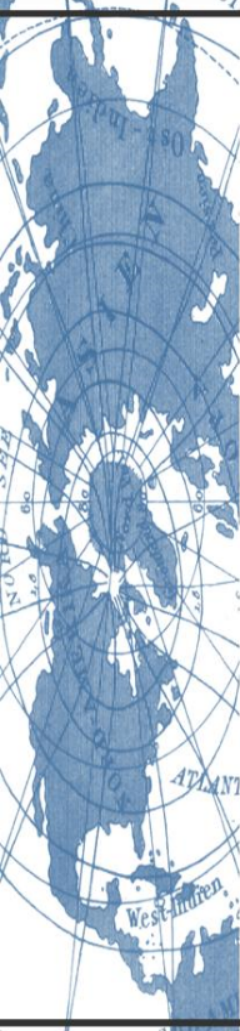
Extortion avoidance

- 
- Discuss demands of local officials with higher authorities.
 - Cooperate with local commercial associations to publish official procedures, time, and fees for approvals.
 - Prohibit payment of non-documented expenses.

Responses to extortion

- 
- A blue-toned map of the Americas, showing the continents of North and South America, overlaid with a grid of latitude and longitude lines. The map is positioned on the left side of the slide.
- Refuse to pay and explain that your organization doesn't allow payments not required by law and official receipts are required.
 - Report incident to higher management.
 - Inform official that making payment is prohibited by your company and explain that you may be fired if you make a payment.

Responses to extortion

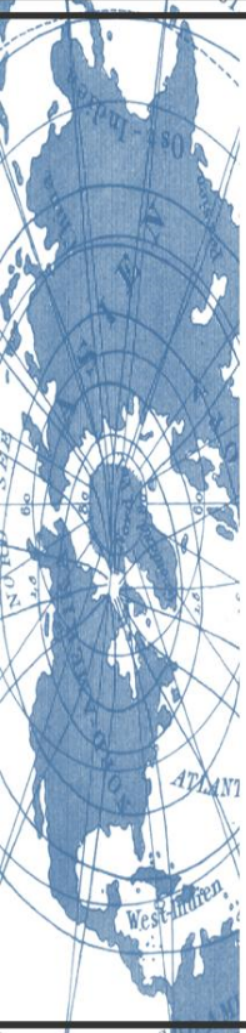
- 
- Take the name of the employee and explain that all fees must be paid to the government office and that an official fee needs to be issued.
 - If this can't be done, request a receipt on the government letterhead.

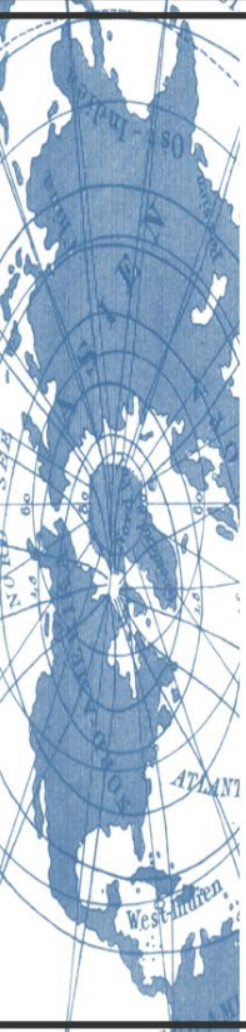
Responses to extortion



- Identify a more senior official to approach.

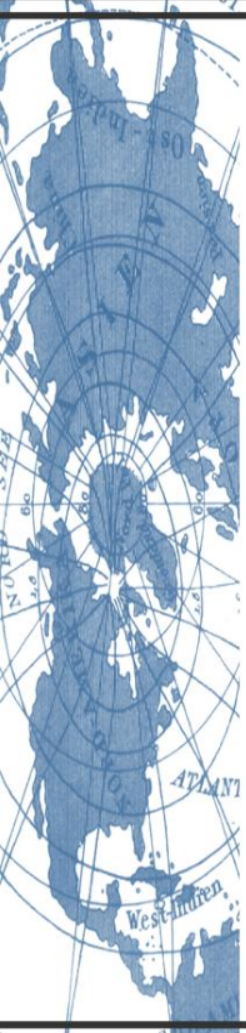
Responses to extortion

- 
- Seek assistance from other organizations, local universities, and trade organizations. Ask how they have responded to similar demands.
 - Explain to the parties involved that the demand could endanger continued operations.
 - Contact business groups and the U.S. embassy.

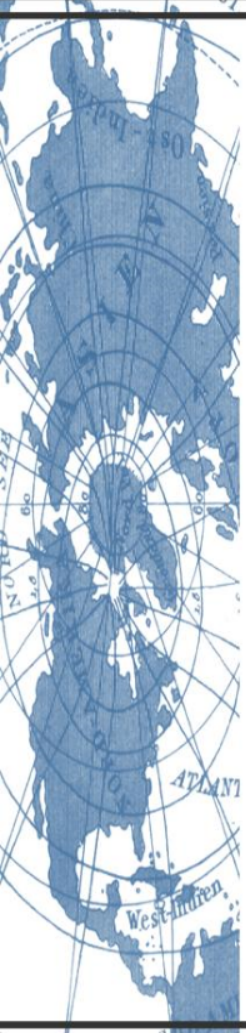


- Theft of cash or property in company's possession.
- Skimming: Before cash gets on the books, stealing.
- Phony vendors: Company pays invoice and money is paid to employee.

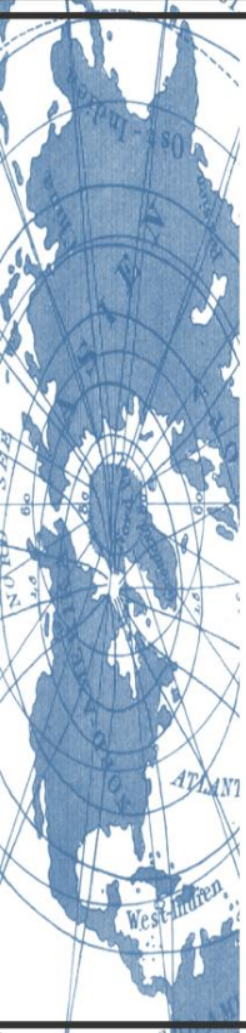
Individual Warning signs

- 
- No concept of right or wrong
 - Troubling family and friend relationships
 - Deceptiveness
 - Resentment
 - Build an image of trustworthiness
 - Self confidence – belief they can get away with crime.
 - Clever and creative

Behavioral Red Flags

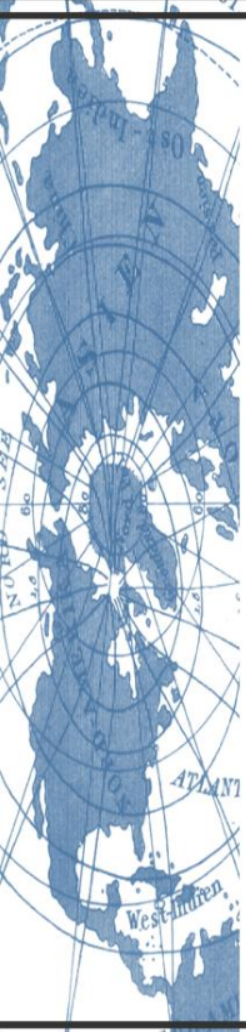
- 
- A blue-toned map of the Americas, showing the United States and parts of Canada and Mexico, overlaid with a grid of latitude and longitude lines. The map is positioned on the left side of the slide.
- Failure to follow procedures and accounting rules
 - Late submission of expenses
 - Reluctance to reassign work
 - High travel expenses.
 - Failure to reply to inquiries related to expenses.
 - Purveyors complain of late payments
 - Divorce/Family problems
 - Addiction problems

Remedies against employee theft

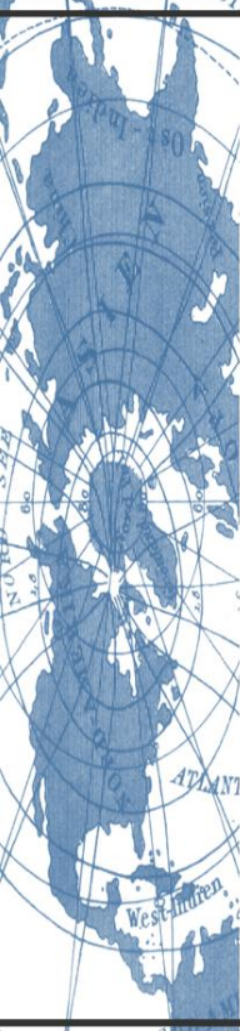
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- Ethical organizational culture
 - Good internal controls
 - Timely submission and review of financial transactions
 - Careful review of expenditures against budget
 - Whistle blower policy

Over-Invoicing

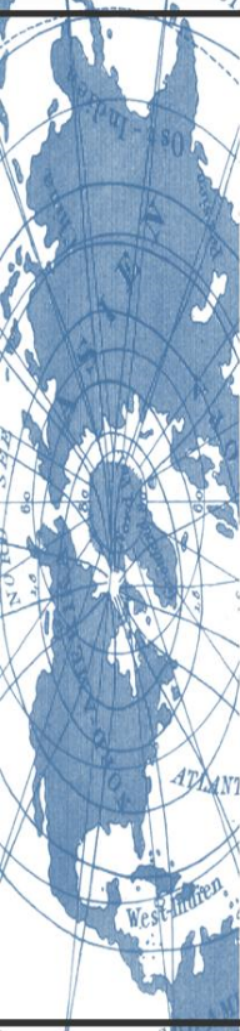
- Over-invoicing is a popular mechanism used in both government organizations and private firms in China and the rest of the world to embezzle funds.

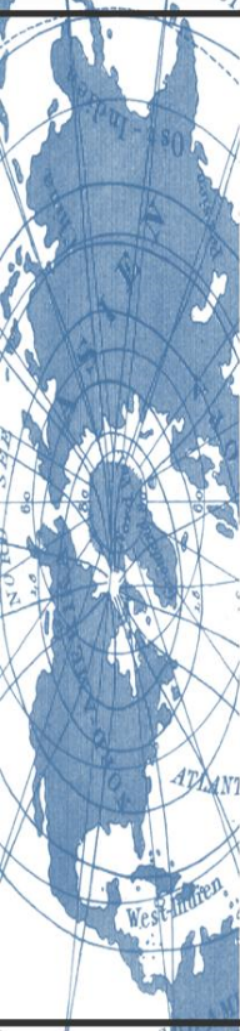


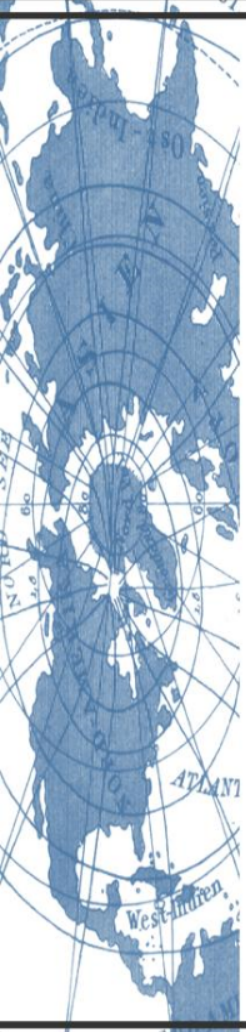
Over-invoicing

- 
- A blue-toned map of the United States is positioned on the left side of the slide, overlaid with a grid of latitude and longitude lines. The map is semi-transparent and serves as a decorative background element.
- Employee sent to purchase computer with authorization to spend \$3000.
 - Computer firm provides invoice for \$3000 although computer lists at \$2500
 - Employee pockets \$250
 - Computer agent pockets \$250
 - Alternative: the Computer firm throws in a hard drive worth \$250 to the employee.

Misuse of petty cash

- 
- A blue-toned map of the Pacific region, showing the outlines of continents and islands, overlaid with a grid of latitude and longitude lines. The map is positioned on the left side of the slide.
- Employee takes petty cash to purchase office supplies.
 - Store employee provides receipt for 25% more than the cost of the goods.
 - Employee and store employee split the profits.
 - Employee puts her share in the staff social fund.

- 
- Offshore payments
 - Cash payments for services
 - Risks:
 - Labor audits
 - Disgruntled employees can sue—or inform government



Understand regulatory environment everywhere you operate.

Commit to honest operations

Understand risks to operations and reputation

Maintain compliance

Use experts when necessary

Educate staff

Culture of Compliance