PacificCPE

COURSE
11553A

Corruption and the Human Factor

Corruption rarely happens in a vacuum — it starts with people, pressure, and poor controls. Using an extended case study format, this chapter explores how and why corruption takes root within organizations, examining the human factors that enable misconduct to go undetected. CPAs and fraud professionals will gain practical insight into recognizing behavioral red flags and understanding the conditions that allow corrupt practices to thrive, making this course especially relevant for those involved in internal controls, auditing, or fraud risk assessment.

CREDIT HOURS 2 | FIELD OF STUDY AUDITING | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify the four classifications of corruption schemes.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

This course and test have been adapted from supplemental materials and uses partial text from the materials entitled Forensic Accounting and Fraud Examination, 3rd Edition by Mary-Jo Kranacher and Richard A. Riley, Jr. © 2024 by John Wiley & Sons, Inc. Displayed by permission of the publisher, John Wiley & Sons, Inc., Hoboken, New Jersey.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Publication Date: August 2026

TABLE OF CONTENTS

CHAPTER 01

Corruption And The Human Factor 4

1.01 Module 1: Corruption Schemes 9

1.02 Module 2: Bribery 11

1.03 Module 3: Foreign Corrupt Practices Act (Fcpa) 28

1.04 Module 4: Illegal Gratuities, Economic Extortion, And Conflicts Of Interest 32

1.05 Module 5: The Human Factor 45

Test Your Knowledge 53

Final Exam Copy 70

Glossary 59

Index .....

Chapter 1: CORRUPTION AND THE HUMAN FACTOR

Chapter Objective

After completing this chapter, you should be able to:

- Identify the four classifications of corruption schemes.

Perspectives on Elections, Corruption and Fraud

By William J. Kresse, aka Professor Fraud®, CPA/CFF, CFE, Esq. Commissioner, Chicago Board of Election Commissioners Associate Professor, Governors State University

Any type of corruption is damaging, but governmental corruption is particularly corrosive. Confidence in the government is imperative for a successful and continuing democracy. The need for confidence is especially true in the election space. Election fraud can lead to citizen apathy, distrust, and worse.

Sadly, election fraud is not uncommon in the history of the American republic. Historians have noted that there was widespread election fraud involving the absentee ballots cast by Union soldiers during the Civil War. More recently, former Chair of the U.S. Commission on Civil Rights, Dr. Mary Frances Berry, documents numerous notable incidents of election fraud in her book *Five Dollars and a Pork Chop Sandwich, Vote Buying and the Corruption of Democracy*. The book's title refers to the "going price" for a vote in early twentieth century America.

Elections in the United States are not controlled by a central election authority. Rather, elections are administered by more than 10,000 local entities of various titles, sizes, and missions. These include Secretaries of State, County Clerks, and independent election commissions. These agencies oversee the elections of more than a half million government officials. The State of Illinois alone has over 42,000 elected officials. As such, to a corrupt bad actor, the election space must appear like a target-rich environment.

However, there is reason for assurance and hope. Over the past several decades, elections administrators, working closely with various professionals—including Fraud Examiners and forensic accountants—have devised and implemented voting systems that are fair, free, open, and have an emphasis on election integrity. Increasingly, election officials are speaking the language of Fraud Examiners and forensic accountants, and putting into place the controls necessary to prevent, detect, and deter election fraud.

As long as individuals are willing to cheat to gain political power—and the commensurate financial rewards—the fraud that is government corruption will be with us. But by following the

principles of Fraud Examination and forensic accounting, the potential harm of election fraud can be severely curtailed. Appropriate controls, combined with sufficiently severe sanctions, can work to minimize the likelihood of election fraud.

The goal of election integrity efforts is to create election systems in which the risk of detection is so great, the punishment so severe, and the reward so low, that no bad actor would be willing to attempt election fraud. While we may never be able to change human behavior, professional election authorities, working with Fraud Examiners and other professionals, can build an election integrity system so strong that potential election fraudsters will view committing election fraud as pointless as counterfeiting pennies.

Black's Law Dictionary defines *corruption* as "an act done with an intent to give some advantage inconsistent with official duty and the rights of others. The act of an official or fiduciary person who unlawfully and wrongfully uses his station or character to procure some benefit for himself or for another person, contrary to duty and the rights of others."[1] This definition strikes at the heart of what corruption is: an act in which a person uses his or her position to gain some personal advantage at the expense of the organization they represent.

Case Study : Why Is This Furniture Falling Apart?

A number of years ago, the *Washington Post* ran a series of articles detailing charges of waste, fraud, and abuse in the General Services Administration (GSA), the federal government's housekeeping agency. In particular, for more than a decade a furniture manufacturer in New Jersey had churned out $200 million worth of defective and useless furniture that GSA purchased.

Despite years of complaints from GSA's customers about the shoddiness of the furniture and equipment, the GSA had done little to investigate the contractor, Art Metal U.S.A. Government agencies that received the furniture, such as the Internal Revenue Service, the Central Intelligence Agency, and the State Department, told horror stories about furniture that fell apart, desks that collapsed, and chairs with one leg shorter than the others.

Several names have been changed to preserve anonymity.

When federal employees complained to the GSA, they were ignored or rebuffed. "You didn't fill out the right form," GSA would say, or "You have to pay to ship it back to the contractor and wait two years and you might get a replacement."

After several years, this behavior naturally gave rise to the speculation that bribery and corruption were the cause of the problem.

A series of articles in the Washington Post led to a congressional investigation. Peter Roman, then chief investigator for a subcommittee of the U.S. Senate Committee on Government Affairs, recalled when Senator Lawton Chiles of Florida, chairman of the subcommittee, called him to his office. "He wanted a full investigation into all the practices of GSA," Roman said. Unlike a private audit, a congressional investigation involves a thorough review of financial and operational records, interviews, and sworn testimony, when necessary. If there is enough evidence to show a crime has been committed, then the U.S. Justice Department prosecutes. Roman said this was "one of the few white-collar fraud investigations the Senate had done in years, with the exception of the Investigation Subcommittee's organized crime inquiries." The first step in such an analysis involved general oversight hearings for the Subcommittee on Federal Spending Practices and Open Government. At one of the first hearings, Mr. Phillip J. Kurans, president of the Art Metal furniture company, appeared, uninvited, and demanded an opportunity to testify. He told Senator Chiles that his company produced good-quality furniture at bargain prices and challenged the subcommittee to prove otherwise. He invited the senator to the plant in Newark, New Jersey, to inspect their records. "Chiles had me in his office the next morning," Roman recalls. "He said, 'Tell them we accept their offer. Get up to New Jersey and find out what happened.'"

Roman assembled an investigation team borrowed from other federal agencies. The principals were Dick Polhemus, CFE, from the Treasury Department; Marvin Doyal, CFE, CPA; and Paul Granetto from the U.S. General Accounting Office. "We agreed that the logical approach was to do

a cash flow analysis," Roman recalls. "If the furniture was defective, then someone had to generate cash to bribe somebody else to accept it. All of us had experience in following the money, so we went off to Newark to look for it."

Together, they paid a visit to Art Metal U.S.A. on behalf of the senator.

Kurans grudgingly sent them into a large room filled with thirty years of financial records. In the past, the sheer volume of paper had caused two GSA investigations to end without incident and the company's own auditors to find nothing untoward. Half the team began controlling the checks, separating them out into operations and payroll, while the others reviewed the canceled checks to do a pattern analysis. "Marvin Doyal and I still argue over which one of us first found the checks to a subcontractor that had been cashed rather than deposited," Roman says. "As we began to review the operational checks," he remembers, "one of the items that stood out were checks made out to one company, but under three different names: I. Spiegel, Spiegel Trucking Company, and Spiegel Trucking, Inc." Were the bookkeepers careless in writing in the wrong name? The investigators discovered that the checks made out to I. Spiegel (which were folded into threes, like one would fold a personal check and place it in his wallet) were cashed by one Isador Spiegel. These checks were not run through any Spiegel Trucking Co. business account and had been used solely for cash. The checks to Spiegel Trucking Co., on the other hand, "looked like they had been used for actual delivery of furniture to various GSA depots or customers," Roman said.

The other item that caught the investigators' eyes involved checks made out simply to "Auction Expenses" for even sums of money. Kurans told them that the company bought used machinery for cash at auctions throughout the East Coast. That was the reason, he said, that the company spent large amounts of cash.

Yet when the team called operators of furniture auctions they found that auctions required the buyer to show up with a certified check for 10% of the amount bought. The rest was also to be paid with certified checks. Over four years, Art Metal generated $482,000 in cash through so-called "auction expenses." More than $800,000 flowing to Spiegel was converted into cash. This was enough evidence to garner Kurans a subpoena to appear before the subcommittee. The subpoena enabled the investigators to obtain "literally a truck full of documents" from Art Metal, Roman said, "which filled a whole room in the basement of the Russell Senate Office Building."

With over $1 million in cash discovered, the next step for the investigating team was to look for evidence of bribery. They painstakingly interviewed every furniture inspector in GSA's Region Two, eventually focusing on a former regional inspector of the GSA. Over the past four years, this man had bought eleven racehorses at an average price of $13,000 each—much more money than a GSA furniture inspector could afford. At this point, Senator Chiles authorized bringing in a special counsel. This was Charles Intriago, Esq., a former Miami Strike Force prosecutor. When

confronted, the inspector availed himself of his Fifth Amendment rights, and the search for another witness continued. They found one: Louis Arnold, a retired bookkeeper at Art Metal. Arnold would testify that Art Metal management was paying off GSA inspectors. Arnold revealed a third source of cash, a petty cash fund, totaling about $100,000, which was used to pay for the inspectors' lunches and hotel expenses. Based on Arnold's testimony, investigators subpoenaed three banks that had photographed all of their cash transactions. "We found pictures of the treasurer, the plant manager, and occasionally one of the partners cashing these 'auction expense' checks, and taking the money in twenties."

During the Senate hearings, several senior agency officials testified to the shoddiness of the furniture. Roman, who spent some time on the floor of the plant, saw many examples of shabby workmanship. For example, although plant managers claimed they had bought a quality paint machine to paint filing cabinets, Roman said all he ever saw was a man wearing a gas mask, with a hand-held paint sprayer, wildly spraying at cabinets that darted past him on a conveyor belt. "It was like seeing a little kid playing laser tag, and the target appears for half a second, and he takes a wild shot at it and hopes he hits the target," he said.

Marvin Doyal testified to the generation of $1.3 million in cash, a company official testified that the money had been used to bribe (unnamed) GSA inspectors, and company officials and GSA inspectors availed themselves of their Fifth Amendment rights. Interagency problems between the subcommittee and the Justice Department played a major role in a failed plea bargain with a former GSA official. At this point, Senator Chiles and the staff decided that the subcommittee had gone as far as it could.

Why did Art Metal not make an attempt to hide their fraud? "In the first place," Roman said, "they thought nobody would ever come. Secondly, they had been the subject of two GSA-appointed investigations that uncovered nothing."

The result of the investigations proved disappointing to Senator Chiles and the subcommittee staff. "In the end, however," Senator Chiles later said, "we achieved our legislative mission. We were disappointed that the plea bargain and other subcommittee efforts didn't pay off as fully as they might have, but we sure got GSA's attention."

Embarrassed by the subcommittee disclosures, GSA stopped awarding government furniture contracts to Art Metal U.S.A. Having lost what amounted to its sole customer, Art Metal soon went bankrupt. Its plant manager and general counsel were convicted of related offenses within two years. The investigations into the GSA prompted a housecleaning of that agency. At the time of the hearings, GSA had 27,000 employees; today, it employs about 13,000. GSA's role as the federal government's chief purchasing agent has been greatly diminished. The Art Metal case showed that centralized purchasing is not always a good idea.

In this chapter, the authors will examine the topic of corruption with an additional look at the human factor. Those modules, along with learning objectives, include the following:

- Module 1 briefly introduces the topic of corruption. The objective of this module is for the reader to be able to describe corruption in its four main forms: bribery, illegal gratuities, economic extortion, and conflicts of interest.
- Module 2 reviews bribery in greater detail. This fraud scheme includes kickbacks and bid-rigging. The goal in this module is for the reader to be able to identify antifraud measures with regard to kickbacks and bid-rigging and apply relevant skills to address case scenarios.
- Module 3 takes a closer look at bribery in an international context through the lens of the Foreign Corrupt Practices Act (FCPA) and the 2010 UK Bribery Act. The objective is for readers to be able to apply antibribery knowledge to organizations operating internationally, especially in high-risk, developing countries.
- Module 4 covers illegal gratuities, economic extortion, and conflicts of interest. Illegal gratuities are similar to bribery except that illegal gratuities are exchanged after the economic or political decision has already been made. The goal here is for the readers to be able to describe the activities and concealment efforts associated with illegal gratuities, economic extortion, and conflicts of interest.
- Module 5 explores the human factor. In this chapter, we reinforce and supplement the material concerning who commits fraud, what pressures the fraudster might face, and common rationalizations. The take-away from Module 4 will be the reader's ability to adjust their application of antifraud methodology to case issues without inflicting their values on possible suspects. This approach provides a deeper understanding of fraud perpetrators and permits a more objective, evidence-based fraud examination.

MODULE 1: CORRUPTION SCHEMES

In the ACFE Fraud Tree, corruption schemes are broken down into four classifications:

1. Bribery
2. Illegal gratuities
3. Economic extortion
4. Conflicts of interest

Before discussing how corruption schemes work, we must understand the similarities and differences that exist among bribery, illegal gratuities, and extortion cases. Bribery may be defined as the offering, giving, receiving, or soliciting anything of value to influence an official act. The term *official act* means that traditional bribery statutes proscribe only payments made to influence the decisions of government agents or employees.

Many occupational fraud schemes, however, involve *commercial bribery*, which is similar to the traditional definition of bribery except that something of value is offered to influence a business decision rather than an official act of government. Of course, payments are made every day to influence business decisions, and these payments are perfectly legal. When two parties sign a contract agreeing that one will deliver merchandise in return for a certain sum of money, this is a business decision that has been influenced by the offer of something of value. Obviously, this transaction is not illegal. In a commercial bribery scheme, the payment is received by an employee without her or his employer's knowledge or consent. In other words, commercial bribery cases deal with the acceptance of personal payments to the employee in return for the exercise of influence over their employer's business transaction. Notice also that *offering* a payment can constitute a bribe, even if the illicit payment is never actually made.

Illegal gratuities are similar to bribery schemes, except that something of value is given to an employee to *reward* a decision rather than influence it. In an illegal gratuity scheme, a decision is made that happens to benefit a certain person or company. This decision is not influenced by any sort of payment. The party who benefited from the decision then rewards the person who made the decision. For example, in one case, an employee of a utility company awarded a multimillion-dollar construction contract to a certain vendor and later received an automobile from that vendor as a reward, a sign of appreciation.

At first glance, it may seem that illegal gratuity schemes are harmless if the business decisions in question are not influenced by the promise of payment. But most company ethics policies forbid employees from accepting unreported gifts from vendors in excess of some minor monetary value (e.g., $25). One reason for concern is that illegal gratuity schemes can (and do) evolve into bribery schemes. Once an employee has been rewarded for an act, such as directing business to a particular supplier, an understanding might be reached that future similar decisions that are beneficial to the supplier will also be rewarded. Additionally, even though an outright promise of payment has not been made, employees may direct business to certain companies in anticipation that they will be rewarded with money or gifts, which can likely influence their future decisions and actions.

Economic extortion cases are the "pay up or else" corruption schemes. Bribery schemes involve an offer of payment intended to influence a business decision, whereas economic extortion schemes are committed when one person demands payment from another. Refusal to pay the extorter results in some economic harm, such as a loss of business. For instance, an employee in another case demanded payment from suppliers and, in return, awarded those suppliers subcontracts on various projects. If the suppliers refused to pay the employee, the subcontracts were awarded to rival suppliers or held back until the fraudster got his money.

Bribery, illegal gratuities, and economic extortion cases all bear a great deal of similarity in that they all involve an illicit exchange of something of value from one party to another, either to