

## University of Dayton eCommons

---

Accounting Faculty Publications

Department of Accounting

---

3-1-2016


# Public Corruption: Causes, Consequences & Countermeasures

Victor Hartman

Sridhar Ramamoorti

*University of Dayton*, [sramamoorti1@udayton.edu](mailto:sramamoorti1@udayton.edu)

Follow this and additional works at: [https://ecommons.udayton.edu/acc\\_fac\\_pub](https://ecommons.udayton.edu/acc_fac_pub)

 Part of the [Accounting Commons](#), [Business Administration, Management, and Operations Commons](#), [Business Law, Public Responsibility, and Ethics Commons](#), [Corporate Finance Commons](#), and the [Nonprofit Administration and Management Commons](#)

---

### eCommons Citation

Hartman, Victor and Ramamoorti, Sridhar, "Public Corruption: Causes, Consequences & Countermeasures" (2016). *Accounting Faculty Publications*. 97.

[https://ecommons.udayton.edu/acc\\_fac\\_pub/97](https://ecommons.udayton.edu/acc_fac_pub/97)

This Article is brought to you for free and open access by the Department of Accounting at eCommons. It has been accepted for inclusion in Accounting Faculty Publications by an authorized administrator of eCommons. For more information, please contact [frice1@udayton.edu](mailto:frice1@udayton.edu), [mschlangen1@udayton.edu](mailto:mschlangen1@udayton.edu).



# Public Corruption: Causes, Consequences & Countermeasures

**By: Victor Hartman, JD, CPA, CFE, CFF; and Sridhar Ramamoorti, Ph.D., CGFM, CPA, CIA, CITP, CFE, CFF, CFSA, CGAP, CGMA, CRMA, CRP, MAFF**

Corruption continues to make the headlines of our newspapers. For instance, Sheldon Silver, the Speaker of the New York Assembly, was not only accused of steering real estate developers to a law firm that paid him kickbacks, but also for funneling state grants to a Columbia University doctor who referred asbestos claims to a second law firm that then paid Silver referral fees.<sup>1</sup> Less than a decade ago, FBI Special Agent Robert Grant, announcing corruption charges against then Illinois governor Rod Blagojevich, said “if [Illinois] isn’t the most corrupt state in the United States, it is one hell of a competitor.”<sup>2</sup> According to the 2014 Association of Certified Fraud Examiners (ACFE) Report to the Nations global survey of fraud, 36.2 percent of all corruption schemes were found in government and public administration. Corruption seems to be the most compatible with other fraud scheme types, and resulted in a median loss of \$200,000 per incident. Further, that 37 percent of corruption cases were attributed to unusually close associations with the vendor or customer suggests conflicts of interest and corruption.<sup>3</sup>

Yet those who investigate fraud know that corruption and conflicts of interest are notoriously difficult to investigate and even more challenging to prosecute

successfully. Beyond the financial and reputational costs, corruption can change the face of a community. Consider the assertion: “Over and over, for several decades, some Chicago aldermen have given away public benefits, like zoning rights and city-owned land, to real estate developers who, in turn, have lined the aldermen’s pockets and campaign purses.”<sup>4</sup> Although corruption does significant damage to public institutions and the private sector, fraud prevention experts, government accountants and academics know relatively little about its origins and causes. There is a dearth of understanding of why corruption seems rampant and how corruption actually comes about and ensnares its victims.

Corruption and conflicts of interest, along with asset misappropriation, and fraudulent statements, appear in the ACFE “Fraud Tree.” Before turning to what can be done to mitigate the harmful effects of corruption, let us first define and understand it, and recognize the difficulty of detection and the underlying causes of this very human phenomenon.<sup>5</sup>

The formidable challenge of detecting corruption is frustrating to law enforcement. For other types of fraud, victims generally learn of their loss and are highly motivated to report it, even sue to be made whole. Conversely, consider the career politician who develops strong bonds with the vendors that help put him in office. When that elected official receives lunches, trips, gratuities, or possibly cash, both parties are complicit, and therefore neither has an incentive to expose the “other’s” wrongdoing. Corruption, by its very nature, breeds complicity because even

Corruption, by its very nature, breeds complicity because even when one or more parties realizes it is wrong, perhaps even shameful, the need for discretion and “saving one’s own skin” imposes secrecy on those involved.

when one or more parties realizes it is wrong, perhaps even shameful, the need for discretion and “saving one’s own skin” imposes secrecy on those involved.

While direct damages of public corruption may be calculable, the secondary effects of anger and mistrust by the constituents at large are not only incalculable, they can actually encourage other participants to engage in this conduct out of fear of being locked out of the system. On a larger, societal scale the erosion of trust among interacting parties has long-term consequences that increase transaction costs in markets and society, as a whole. For instance, the unsavory activities and reputations of career politicians discourage many otherwise competent and well-intentioned citizens from ever seeking political office.

What can be done to stop corruption and conflicts of interest? Is this malfeasance an inevitable product of the human condition? First, let’s examine the causes.

### Root Causes: Understanding the Social Compact of Reciprocity

For those law enforcement officials who have spent their careers debriefing corrupt public officials, a clear pattern becomes evident. While this information is helpful to assist investigators gathering evidence and interviewing participants, and

it may even be helpful to the judge sentencing a defendant, this information is rarely shared with entities that could actually use it to educate or deter someone from engaging in corruption.

So what are the root causes of corruption? What are law enforcement officials seeing that could actually help prevent corruption? The simple fact is that corruption is a human act — something we have all seen and can understand intuitively.<sup>6</sup> “Ethical erosion” is characterized by a series of small, sometimes unnoticed acts that erode ethical behavior, with each act providing a foundation for even further erosion.<sup>7</sup> However, when the slow, deliberative but nevertheless ethically corrosive process is happening to the elected official or corporate executive, they are unaware of what is taking place, or may have a misplaced confidence in their internal, psychological defenses. In reality, before they realize what is occurring, it’s too late, the trap has been sprung, and the unsuspecting victim has walked right into it.

So what is it? Let’s begin by understanding the relationships between government or corporate officials and those trying to obtain influence; this is best understood as a sales and persuasion game. The seller of a good or service, or “lobbyist,” is trying to obtain influence with the official who holds power. Whether they know it by this name or not, those influence-peddlers understand only too well the underlying principle and sociocultural construct, i.e., “the social compact of reciprocity.” Indeed, the most remark-

able aspect of reciprocity with its accompanying sense of obligation is its pervasiveness in human culture.<sup>8</sup>

Social psychologists and anthropologists have studied the concept of reciprocity for decades. Indeed, some scholars have attributed the very nature of humans to reciprocity.<sup>9</sup> They claim humans survived because our ancestors learned to share goods and services “in an honored network of obligation.” Thus, the idea that humans are indebted to repay gifts and favors is a unique aspect of human culture. Cultural anthropologists support this idea in what they call the “web of indebtedness” where reciprocity is viewed as an adaptive mechanism to enhance survival. Interestingly, there is social pressure exerted on those who receive but don’t give back; they are disparagingly called “moochers,” “free riders” or “social loafers.”

Government and corporate officials are decision-makers. They make purchasing decisions for products and services, they decide where roads will be built, they are constantly making zoning decisions, and they have the power to expand or contract government services. How can a vendor influence the decision-makers to purchase their product or service?

Some of the best information of how vendors exploit officials has been learned through their cooperation with law enforcement. After a plea agreement, while cooperating with the government, defendants may recount their methods and tactics;



and a common, predictable scenario gets revealed:

When the politician saw me coming, he knew he was getting something. The first encounter may just be me giving my business card, but I always made sure his hand was out and I could see his palm. The next encounter might be a pen or book, but he was going to walk away with something that he knew was from my firm. This gift-giving escalates to meals and entertainment. Eventually, the relationship looks more like a friendship than a business transaction. Trips to the family home, an outing to Vegas, or a quick trip on the corporate jet, it's all about giving the official something. What you're developing is the ace in hole. You never know when you need to call it, but you know it is there. And when you do call in your chit, this is when it gets beautiful. You both know you just straight-up own him. You can now ply him with envelopes of cash and everyone pretends like nothing is happening.

Those attempting to gain access will have different *modus operandi*, but effectively they all exploit the social compact of reciprocity. Conversely, it is enlightening to understand the thought process of those officials charged with corruption. Many have a difficult time admitting they did anything wrong.

For those officials who pleaded guilty and cooperated, their story goes something like this:

I have always done what is in the best interest of my constituents. I work very hard at this job and have done a lot of good. This job is difficult. There are a lot of campaign rules and I don't always pay attention to details. Sure, people gave me money, but I assumed it was campaign contributions. And yes we go to a lot of dinners, but that's how business is done in the real world. As for the gifts and trips, it was relatively insignificant and we always accomplished a lot

of good on those trips. We may have met in the political world, but we are really good friends. In hindsight, I can see this looks bad. When my wife asked me why I always paid in cash and where was the money coming from, it finally hit me: I had somehow sold my office.

Jack Abramoff, arguably the most corrupt lobbyist in U.S. history, was the master of this craft until FBI agents arrested him. At the height of Abramoff's corruption machine, he was giving out an unimaginable number of skybox tickets, pricey restaurant meals and golf junkets to government officials. He even established his own high-end restaurant near Capitol Hill called "Signatures" where he regularly treated elected and appointed federal officials and their staffers. The ingenuity behind and efficiency of this setup was that he could sit at his favorite table and peddle influence on a large scale.<sup>10</sup>

The social compact of reciprocity works in tandem with the slippery slope principle. The slippery slope helps explain how one rationalizes wrongdoing. Fraudsters, or corrupt public officials, resort to rationalization as the human psyche does not allow oneself to wake up, look in the mirror, and see a fraudster looking back; the fraudster or corrupt public official inevitably rationalizes his or her conduct.

When the influence-peddler is using the social compact of reciprocity to gain influence, the things of value need to be given incrementally. A vendor handing a briefcase full of cash to a government official on the first meeting would likely be too abrupt, too brazen, and would neither be expected nor tolerated. Therefore, the corrupting process is slow and deliberate. This allows the official to incrementally rationalize each gratuity being received. It is like the proverbial frog in a heated pot: If you throw the frog into a boiling pot of water, he will jump out. If you put the frog in cool water and gradually turn up the heat, you can cook him to death. It is the same process with officials. You have to give the official time to rationalize each incremental gift. Once he starts down that slippery slope, speed gathers, and there is no getting back up the hill. This "boiled frog" logic explains the nature and life-cycle of the relationship.

Government entities and mature corporations have policies in place to prevent corruption. Government entities likely have both ethics rules and criminal statutes that prevent the receiving of gifts, monetary or otherwise. Corporations typically have a code of conduct, antifraud policies, and a conflicts-of-interest policy. Public officials and company executives know these rules and know they will be presumed to have known these rules if caught and challenged.



The human psyche does not allow oneself to wake up, look in the mirror, and see a fraudster looking back; the fraudster or corrupt public official inevitably rationalizes his or her conduct.



This is where their rationalization process is critical. The official needs to convince himself, as well as justify to others, that receiving the thing of value does not violate these rules. Each incremental gift received must somehow be explained and rationalized. The official may rationalize that the gifts are part of a friendship or that the official is just such a likable person that people want to bestow gifts without any expectation of reward. Regardless of the thought process, it cannot be viewed as something of value received in their official capacity because that is a violation of the rules. Ego trumps common sense and becomes a fatal blind spot in such cases.

### Prevention and Deterrence Strategies

Corruption is the most difficult type of fraud to be detected because the victims are generally unaware of its occurrence. Accordingly, prevention has to play a much more prominent role in mitigating harm.

Government officials generally come into office for the right reasons. Elected officials resonate with their peers, their message appeals to their constituents and they truly want to bring about positive change. Appointed officials may also choose

government service for altruistic reasons. Officials presumably do not enter office with the idea of wanting to profit from bribes. Even corporate executives who engage in corruption and take advantage of conflict-of-interest situations, probably did not set out to engage in this conduct from the start.<sup>11</sup>

The problem with policies is the lack of implementation by those charged with governance. Writing a policy or passing an ethics ordinance is easy. Creating continued awareness, instruction, and training of the policies is resource-intensive and costly. More complicating is the fact that no official views himself or herself as corrupt. Whereas those in charge of governance may fund an ethics awareness program for their organization, they are also just as likely to find themselves too busy to attend. Such an attitude smacks of hypocrisy.

Leaders and management must strive to model appropriate behaviors, and thus lead by example in communicating the proper tone from the top. Their commitment to a strong, fraud-resistant culture should be manifest, and education on fraud and ethics awareness should be the norm. Codes of conduct should be regularly revisited and updated, and ethics hotlines should be emphasized. Swift action should be taken to deal with ethical lapses, especially when senior executives are involved because there is no room for the perception of a “double-standard” within an operation. It is important to create a perception of detection, which can be a most useful strategy for deterrence and fraud prevention.

Newly appointed officials should be required to attend a program called *Ethics Awareness for Newly Elected Officials*. They should see and hear from officials-turned-convicted-felons, including from videos of testimonies, and stories reported in the TV program, *American Greed*, etc. These former officials provide the narrative of how they transitioned from working for the people to receiving cash from the people — describing the “boiled frog” public corruption syndrome in a detailed fashion with real-world examples. Former law enforcement officials also provide real-world examples based on relative experience.

If such programs are implemented, an official would have a greater awareness of constantly being in the crosshairs of lobbyists and influence-peddlers. They could more fully appreciate the behaviors of others. The official could make a conscious decision to refuse the initial gratuity and thus nip the corrupting process in the proverbial bud. In other words, they could jump out of the “hot water” before it cooks them. ■

---

#### Endnotes

1. William K. Rashbaum and Thomas Kaplan (2015). Sheldon Silver, Assembly Speaker, Took Millions in Payoffs, U.S. Says. *New York Times*, Jan. 22, 2015. Accessed Jan. 8, 2016 from: [www.nytimes.com/2015/01/23/nyregion/speaker-of-new-york-assembly-sheldon-silver-is-arrested-in-corruption-case.html](http://www.nytimes.com/2015/01/23/nyregion/speaker-of-new-york-assembly-sheldon-silver-is-arrested-in-corruption-case.html)
2. William Spain (2008). A Compendium of Corrupt Illinois Governors. *The Wall Street Journal*, Dec. 10, 2008. Accessed Jan. 8, 2016 from: [www.wsj.com/articles/SB122885197858492201](http://www.wsj.com/articles/SB122885197858492201)
3. Association of Certified Fraud Examiners (2014). *Report to the Nations on Occupational Fraud and Abuse*. 2014 Global Fraud Study. [www.acfe.com/rtnn/docs/2014-report-to-nations.pdf](http://www.acfe.com/rtnn/docs/2014-report-to-nations.pdf)
4. Fitzgerald, Patrick (2015). The Costs of Public Corruption — And The Need for the Public to Fight Back. Accessed Feb. 3, 2016 from: [www.justice.gov/usao/priority-areas/financial-fraud/public-corruption](http://www.justice.gov/usao/priority-areas/financial-fraud/public-corruption)
5. Ramamoorti, S. (2008). The Psychology and Sociology of Fraud: Integrating the Behavioral Sciences Component into Fraud and Forensic Accounting Curricula. *Issues in Accounting Education*, Vol. 23, No. 4, pp. 521-533. Also see Olsen, William, P. (2010). *The Anti-Corruption Handbook*:



*How to Protect Your Business in the Global Marketplace*. Hoboken, NJ: John Wiley & Sons.

6. Ramamoorti, S., Morrison, D.E., Koletar, J.W. & Pope, K.R. (2013). *A.B.C.'s of Behavioral Forensics: Applying Psychology to Financial Fraud Prevention and Detection*. Hoboken, NJ: John Wiley & Sons.

7. "Ethical erosion" is a term used by Arizona State University clinical professor Jack A. Gilbert, Ed.D., FACHE, and quoted in an article by John M. Buell, "Ethical Leadership in Uncertain Times," in *Healthcare Executive*, May/June 2015. Accessed Jan. 7, 2016 from: [www.ache.org/abt\\_ache/MJ15\\_Feature3\\_reprint.pdf](http://www.ache.org/abt_ache/MJ15_Feature3_reprint.pdf)

8. Cialdini, Robert B. (1988). *Influence: Science and Practice*. 2nd ed. Glenview, Ill.: Scott, Foresman and Company.

9. Leakey, R. and Lewin, R. (1977). *Origins: What New Discoveries Reveal About the Emergence of Our Species and Its Possible Future*. New York: E.P. Dutton.

10. Abramoff, Jack. (2011). *Capitol Punishment: The Hard Truth About Washington Corruption From America's Most Notorious Lobbyist*. Washington, D.C.: WND Books.

11. See Endnote 6.



**Victor Hartman, JD, CPA, CFE, CFF, is the founder of The Hartman Firm, LLC; and previously was with the Federal Bureau of Investigation where he served as a "Street Agent,"**

**Supervisory Special Agent, and Chief Division Counsel for 25 years. He supervised an FBI squad specializing in public corruption and now, in the private sector, works with governmental organizations to design fraud and corruption resistant organizations. Hartman is an Adjunct Professor at Georgia State University, where he teaches forensic accounting, and also serves on Georgia Southern University's Forensic Accounting Advisory Board. He is the current President of the Georgia Chapter of the Association of Certified Fraud Examiners.**



**Sridhar Ramamoorti, Ph.D., CGFM, CPA, CIA, CITP, CFE, CFF, CFSA, CGAP, CGMA, CRMA, CRP, MAFF, a member of AGA's Atlanta Chapter, is**

**currently an Associate Professor in the School of Accountancy and a Director, Corporate Governance Center at Kennesaw State University. A member of the Standing Advisory Group of the PCAOB, he is the past Chairman of FEI's Committee on Governance, Risk & Compliance, as well as a Board member of the Institute for Truth in Accounting and Ascend. Ramamoorti was the inaugural Chairman of the Academy for Government Accountability, and twice received the AGA National President's Award, in 2004 and 2006 respectively.**

## Master Certificate in Federal Financial Management (MCFFM)

Become a more valuable member of your financial management team with this competency-based certificate program. Taught by experienced FM professionals, these courses develop the knowledge and skills you need to excel professionally.

Learn more and apply today!



**Graduate School USA**  
[graduateschool.edu/mcffm](http://graduateschool.edu/mcffm)  
855.256.4395

Copyright of Journal of Government Financial Management is the property of Association of Government Accountants and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.