



More on Bribery

January 2010

Continuing our discussion of the fraud tree—I want to dig into bribery a little bit deeper because it is so pervasive.

Bribery of government officials is the only way things get done in some regions of the world. I remember my first personal encounter with this when my family landed a private plane in the Bahamas (remember my rich uncle?). We brought groceries with us on the plane but the airport officials told us that we couldn't take the groceries off the plane; Bahamian law required that we buy our food locally.

After a few minutes, my uncle figured out what the officials really wanted and he slipped the guards \$200 in cash. The guards then proceeded to help us load the groceries into our Jeep. Mighty generous.

I concluded that to get along in foreign countries, you had to have some extra cash on hand. At seventeen, I naively believed that we Americans were above that sort of behavior.

Wrong! We Americans are just as good at using bribes as anyone else—and we do it in a typically big, American way. We throw plenty of money into our bribes.

Here are a few cases of bribing government officials here in the US that got my attention:

A handy menu

"For almost four years, Mitchell Wade showered gifts and bribes on former Congressional Rep. Randy "Duke" Cunningham, earning his company \$150 million in government contracts between 2002 and 2005.

Wade admitted to giving \$1.8 million in bribes to Cunningham including antiques, a boat, a Rolls-Royce, and the Cunninghams' Del Mar, California home!

In fact, Cunningham was so enamored with his earning power, that he created a bribe menu listing how in government contracts could be bought with escalating levels of bribes. The menu became the primary piece of evidence against him and he was sentenced to 8 years in prison.¹"

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Cunningham was a member of the House Intelligence Committee, which oversees sixteen intelligence agencies and their \$44 billion annual budget.

And the extravagance didn’t stop there. Wade wasn’t the only contractor to bribe Cunningham. Other military contractors arranged limousines, poker parties and prostitutes for him at the Watergate and Westin Grand hotels in Washington.

The inquiry into the poker games put a spotlight on the limousine company that ferried Mr. Cunningham and others to the fun. Although the limousine company was operated by a man with a history of criminal convictions and financial troubles, he held a contract for \$25.2 million to shuttle homeland security employees around Washington (and to some pretty happening parties!).²

Will you help my boyfriend?

“Developers Andrew Schatte and Michael Surface face conspiracy charges brought in January 2008, which accuse them of bribing Monique McGilbra, the former director of the City of Houston’s Building Services Department. They asked her to award contracts to their firm to build Houston’s \$53 million 911 call center and a \$20 million fire station.

McGilbra pleaded guilty and is cooperating with federal prosecutors, who allege Schatte and Surface gave her gifts including the use of a condo in California, \$1,000, and a \$40,000 consultant job for her boyfriend.”³

Invoicing for a bribe?

“In 2004, Agri-Ethanol Products of Raleigh wanted to construct a \$220 million ethanol production facility in North Carolina but needed a clean air permit. In order to raise capital, the company

started telling potential investors that they had political connections that ensured the permit—and even put the boast in their prospectus. That claim was true. The company did have political connections—obtained by a bribe. Agri-Ethanol officials had approached Boyce Hudson, a senior field officer with the North Carolina Department of Environment and Natural Resources and offered him \$100,000 cash and a two-year consulting contract worth another \$108,000 after he retired in 2005. In exchange for the money and the consulting contract, Hudson guaranteed the company the necessary state clean-air permit.

A potential investor tipped off authorities about the political-connection claim in the prospectus. A federal agent posed as a potential investor who paid Hudson a \$15,000 advance on his bribe. Later in 2006, Agri-Ethanol paid Hudson \$5,000.

But, 67-year-old Hudson got impatient for the rest of his money and sent an invoice to Agri-Ethanol for the remainder of his bribe funds! That gave the feds the green light to bring federal extortion and money laundering claims against Hudson.”⁴

In 2008, Hudson plead guilty to the charges in federal district court was sentenced to forty months in federal prison and must pay \$50,000 in fines and restitution.

And these are the cases that we know about!

Makes me remember a lush tropical cay—a pretty nice thought for the coldest January in memory.

The fraud discussion continues next month...

1. Greg Moran, “Wade Cooperated in Cunningham Probe,” San Diego Union-Tribune, December 14, 2008.
2. Paul von Zielbauer and David Johnston, “More Questions Surface in the Wake of a Congressman’s Bribery Case”, The New York Times, May 7, 2006.
3. James Pinkerton and Dane Schiller, “Judge Refuses to Dismiss Developers’ Bribery Case: Government Conduct Draws His Concern,” Houston Chronicle, August 28 2009.
4. Roger McEowen, “One Ethanol Plant Involved in Federal Bribery Case; Two Men Charged in Bio-Scamming Taxpayers,” Iowa State University Center for Agricultural Law and Taxation, Updated April 23, 2009.

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