FROM THE UNDERWORLD TO THE BOARDROOM

True Tales of Fraud, Corruption, Counterfeiting, and Cons

Donn LeVie Jr.
FROM THE UNDERWORLD TO THE BOARDROOM:
TRUE TALES OF FRAUD, CORRUPTION,
COUNTERFEITING, AND CONS

BY
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Introduction

Weapons of mass persuasion are neither good nor bad; it’s the intent that makes them so.

Several years ago at an ACFE Global Fraud Conference, I spoke to a large audience of anti-fraud professionals about one of the most sought-after soft skills for leaders: influential intelligence. It’s a sign of leadership presence and takes emotional intelligence (EI) to the next level. Influential intelligence is a power-management/soft-skill tool in the hands of the presence-driven leader.

It can also be an effective weapon in the fraudster’s arsenal of deceit and deception as it plays well into their persuasive charms.

Emotional and influential intelligence

Emotional intelligence is a term coined by Daniel Goleman in his book by the same name that defines a common crucial characteristic of effective leaders, regardless of leadership style. Different situations call for different leadership approaches, but the underlying theme woven through them is the degree of emotional intelligence.

Influential intelligence goes beyond the empathy and social skills that are part of emotional intelligence. Influential and
persuasive intelligence, as both an innate and acquired expertise, follows a four-step process that creates leadership presence: Engagement, positioning, influence, and conversion.

Presence is the ability to *engage* authentically with potential clients/ customers, decision makers, and others to create familiarity and trust; it allows for better *positioning* of one’s branded expertise in direct engagement scenarios with others to further enhance trust and create a strong “likeability” factor; and it uses the *influence* of the social proof of value in post-engagement scenarios to help *convert* others or gain *compliance/cooperation* for ideas, products, projects, mandates, or proposals.

The same four-step approach serves the con artist as well.

Strong self-awareness (strengths, weaknesses, drives, values and impact on others) and self-regulation (controlling or redirecting disruptive impulses or moods) are two other characteristics of high emotional intelligence. However, even the most emotionally- or persuasively intelligent individual undergoing a vulnerable life situation, such as a bankruptcy, death of a spouse or child, divorce, or life-threatening illness will have cracks in these foundational strengths that con artists and other fraudsters exploit to their advantage. Falling victim during such harrowing times is often the result of how the brain’s neurochemistry influences our cognition and emotions.

Such scenarios that allow the con artist to thrive occur not only in the personal lives of individuals but also on a larger scale during historical periods of political, economic, or social upheaval.
Author John Naisbitt wrote in *Megatrends* back in the early 1980s about being in an “Age of Parenthesis,” a time of upheaval, uncertainty, and opportunity as one cultural era evolves into a new one. Emerging technologies revolutionize norms from social interactions to financial transactions in addition to placing heavier demands for attention on everyone. Technology has simplified life in many ways, but it has also created too many options vying for our ever-shrinking attention span.

The fraudster capitalizes on such turbulent times in the lives of people during fractured, exposed, and emotionally unprotected life situations, where the power to resist is at its lowest, and the influence of distraction is high.

Fraudsters work hard to create likeability, a sense of familiarity and empathy, which elevates oxytocin levels in the brains of potential victims. So-called “dark leaders” (psychopaths, narcissists, and Machiavellians) share these characteristics. Empathy is the gateway to feelings of trust (people are by nature trustworthy as a byproduct of evolutionary survival), which then can easily lead them to comply with the fraudster’s requests. He or she is a master of brain chemistry manipulation without knowing the formula for a single neuropeptide hormone.

Related to the increase in oxytocin levels is what Daniel Goleman refers to as the “amygdala hijack” in his book, *Emotional Intelligence*. The term describes a condition where any strong positive or negative emotion increases blood and...
oxygen to the almond-shaped amygdala in the brain, which impairs the rational function of the brain’s pre-frontal cortex.

Critical thinking, discernment and problem-solving skills are also impaired, which play into the fraudster’s world. Behavioral impulsivity can lead to individuals being more susceptible to the various ploys of con artists. The myth of the “hot hand” (consecutive wins in a contest) has lulled many an unsuspecting victim into the fraudster’s web of deceit when each turn has a 50/50 chance of a win.

**How well-spun tales make people eager to pull out credit cards, cash, and passwords**

In his 1835 essay, “Diddling: Considered One of the Exact Sciences,” Edgar Allen Poe took on the business of the “diddler” or con artist as this excerpt reveals:

> Diddling, rightly considered, is a compound, of which the ingredients are minuteness, interest, perseverance, ingenuity, audacity, nonchalance, originality, impertinence, and grin. Your diddler is guided by self-interest... He has an object in view — his pocket — and yours... He understands plot. He invents and circumvents.

Skepticism, a function of the rational brain, surrenders to unfettered belief when the most emotionally convenient justification presents itself embedded in a well-spun story.
offered by the fraudster and all judicious use of rational discernment is cast by the wayside.

People need to feel secure, needed, and valued in their place in the world. During emotionally disjointed life situations, people have a need to seek out solutions that have no simple, rational resolution. In efforts to close the broken circle, people gravitate to the smooth-talking fraudster who proclaims to have the secret to make them whole again.

Questions like “why did this happen to me?” or “how could this happen to us?” are siren calls to the con artist. People struggle to make sense of their emotional predicament, which is why they often turn to shady promise peddlers, such as fortune tellers, palm readers, psychics, and the like, gladly surrendering cash, credit card numbers, passwords, and bank account numbers for any believable yarn or explanation.

People do not like ambiguity, uncertainty and the accompanying anxiety, so the desire to believe in plausible-sounding alternatives often overrides discernment and rational considerations.

**Story narrative structure: Tool of leaders and fraudsters**

Story narratives typically involve a main character with some challenge or problem who meets someone who can help with a plan (engagement, positioning). That plan involves accepting the helper’s assistance (can’t help unless there’s some “buy in” or value exchange) that promises to remove the anxiety, fear of loss, or problem (influence, compliance), which will end in a
favorable resolution for one party or the other. Oral tradition, books, and movies have long followed this narrative flow.

Influential/emotionally intelligent leaders use stories and narratives to gain compliance with others through the use of engagement approaches, positioning strategies, and evidence of valued expertise to influence decisions and behaviors.

After first establishing trust, belief, and familiarity, these individuals unselfishly allow others to realize their own sense of self-direction, self-purpose, and self-value that gives meaning to their lives. The con artist leads victims to these same realizations but for his or her own selfish ends.

As actor Alfred Lunt once stated, “There is nothing I need so much as nourishment for my self-esteem.” Like moths to a flame, fraudsters capitalize on this profound human desire.

Once trust and belief have been established, influential leaders position the authority of their value or expertise through storyline to move a particular narrative forward. Fraudsters follow a similar path with positioning their presumed authority/value to move their contrived narrative forward.

The next step in the narrative builds on previous steps, whereby trust + belief + familiarity + authority positioning facilitate influence to gain compliance with the narrator’s request or goals. For leaders with high EI, an audience that trusts and believes in who they claim to be and accepts their authority position find it easier to be influenced by a narrative that is good of the many.
Fraudsters follow a parallel narrative path to influence the victim to comply with their selfish objective for the good of the one.

**The allure of Veblen goods: For investors and con artists**

American economist and sociologist Thorstein Veblen published a paper in 1899 entitled, “The Theory of the Leisure Class,” that detailed the desire for luxurious lifestyles. Veblen goods are those luxury items that fall outside the laws of supply and demand, such as expensive wines, precious jewels, watches, sports cars, designer handbags, and other rare items. As a Veblen item becomes more desirable, it also becomes more expensive; however, when the price drops, so does the desire to own that item.

Veblen goods represent a profitable category for con artists, who play on individuals’ sense of accomplishment, are conspicuous with displaying their wealth, enjoy playing one-upsmanship with other collectors of rarities, or possess unbounded egos.

Fraudsters who specialize in counterfeit “collectibles” make huge profits and are rarely pursued because the victim’s ego, embarrassment, or shame makes them reluctant to alert law enforcement or even prosecute. With rare collectibles, such as wines or artwork, it’s often the case that a counterfeit collection is simply sold off to an unsuspecting collector, thereby keeping the bogus items in circulation.

Even non-Veblen goods that are not as expensive contribute to the pleasure derived from the purchase experience, but while
the profit potential isn’t there for the high-stakes con artist to dabble in, counterfeit/forged everyday commodities (designer handbag knockoffs, DVDs, expensive watches, pirated software, etc.) at all price points are in circulation.

Are we all potential “marks”?

Dale Carnegie wrote in *How to Win Friends and Influence People*, “There is only one way under high heaven to get anybody to do anything...And that is by making the other person want to do it.” Charles Schwab was paid millions by Andrew Carnegie not for his knowledge of steel or for his genius intellect, but in Schwab’s own words, “…for my ability to arouse enthusiasm among my people.”

Emotionally intelligent, influential leaders understand this; so do fraudsters, and it’s what makes them both successful.

We can only examine a sliver of the potential discussion points for comparing influential and persuasive intelligence in its application by both the presence-driven leader and the ethically and morally bankrupt fraudster. The influence of brain chemistry is a significant one, as is willful blindness.

**FRAUD AND WILLFUL BLINDNESS ARE CONSTANT COMPANIONS**

How did the FTX cryptocurrency fraud happen after the lessons from the Bernie Madoff and Enron scandals? Enron VP Sherron Watkins warned Ken Lay in August of 2001 of an impending financial calamity six months before it happened. Harry Markopolos warned the SEC multiple times between 2000 and 2008 about Bernie Madoff’s Ponzi scheme but the SEC repeatedly failed to act.
In 2018, the unknown Sam Bankman-Fried was seeking millions in equity from Dragonfly Capital, which invested in blockchain technology and other crypto startups. Dragonfly founder, Alex Pack, initially found Bankman-Fried as “incredibly smart and charismatic.” However, over a six-month period of meetings, Pack’s team concluded that Bankman-Fried’s risk-taking was “catastrophic…we saw red flags and too much risk.”

While there is no such thing as a “dark side” of influential and persuasive intelligence, it is agnostic as it is the intent of its use that determines whether it serves as a leadership skill or the fraudster’s weapon of choice. When influential and persuasive intelligence are put to nefarious use under “perfect” circumstances, we all run the risk of becoming potential marks. §§§
Donn LeVie Jr.
Who’s More Susceptible to Fraud?

Certainly not YOU, right?

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We know how the Fraud Triangle helps explain the conditions that lead people to commit fraud. But what about the factors that could cause some to be predisposed to fraud? Here are some practical principles to consider when you're working with fraud victims.

In the mid-'90s, when I was working for a global high-tech firm, I received a call from a fast-talking stockbroker with an unmistakable Brooklyn accent representing a company I had never heard of: Stratton Oakmont.

"Are you looking for a unique investment opportunity?" he asked. I told him I already had a financial advisor, but he was persistent to the point of being irritating. He schmoozed me with questions that led me down a path where I found myself agreeing with his assertions.

He called back every day for a week and left messages on my office phone, such as, "Someone in your position probably has a couple hundred thousand dollars just waiting for the right investment."
I laughed aloud at his wild characterizations, so I finally told him not to contact me further because I had no interest in his penny-stock opportunities.

Two years later, the feds broke up Stratton Oakmont, a Long Island-based boiler-room trading operation. A rep from the firm was the pest who kept calling me. Its founder, Jordan Belfort, was indicted on money laundering and later securities fraud charges. His high-pressure operation led to investor losses of $200 million. The Leonardo DiCaprio movie, "The Wolf of Wall Street," was based on Belfort's outrageous escapades and others who worked at Stratton Oakmont.

Was it Jordan Belfort who called me from the firm? Likely not, but every time I recall the incident, I feel relieved that I wasn't talked into parting with even a fraction of our investment capital. I thought I was too smart for that kind of scam.

'What? Not me!'

In a recent interview with Regent Emeritus Tiffany Couch, CFE, Acuity Forensics' CEO and author of The Thief in Your Company (Lioncrest Publishing, January 2017), she described to me a case from her book of "Gary," whose longtime CFO and close friend defrauded Gary's company to the tune of $2 million.

When she broke the news to Gary, she told me he replied, in shock and disbelief, "You don't understand! We play racquetball together. We go to church together. You don't understand. What you're telling me can't be true!"
Of course, if you don't think you're at risk of becoming a fraud victim, then you're likely at risk of becoming a fraud victim.

"The person who can financially 'harm' the most is the one who is trusted the most. The one who is trusted the most is the often the one most liked," said Don Rabon. CFE, in a recent interview. Rabon is coauthor with Tanya Chapman of the 2016 book, *Persuasive Interviewing: A Forensic Case Analysis* (Second Edition, Carolina Academic Press).

Everyone, at certain times of life, can be prone to scams. We don’t have definitive reasons why we succumb to a fraudster's siren song. But we can examine some behaviors and situations (divorce, bankruptcy, job loss), environments (peer pressure and influence, lack of workplace ethics policy), and even neuro-psychological susceptibilities (dyslexia, memory impairment and addictions) that might raise flags.

**Oxytocin: The ‘love hormone’ with a bad side**

Many fraudsters know that our brains wrestle constantly between emotional and rational thinking. So, they try to ply their craft to influence would-be victims' emotions during vulnerable life situations. Emotional susceptibility is related to the neuropeptide oxytocin. This hormone (called the "love hormone") and neurotransmitter enables complex social bonding, well-being and "approach behavior" — for example, feelings of empathy - as well as "avoidance behavior" — feelings of apathy.

Fraudsters preying on individuals work hard to be likeable and communicate a sense of familiarity and empathy. Such
actions stimulate the release of oxytocin in the brains of potential victims, which makes them even more susceptible. Empathy can open the gates wider to trust (people are by nature trustworthy as a byproduct of evolutionary survival), which then can easily lead them to comply with fraudsters' requests.

The Northwestern University research in Science Daily indicates that oxytocin can cause emotional pain, fear and anxiety because the hormone strengthens social memory in the brain. This finding might explain why the emotional and psychological hurt from being defrauded reverberates for many years.

**Hijacking the amygdala: “What were they thinking?”**

Related to the oxytocin boost is the "amygdala hijack," a term coined by Daniel Goleman in his book, *Emotional Intelligence: Why it can matter more than IQ* (Bantam Books, 1995). The term describes a condition where any strong positive or negative emotion increases blood and oxygen to the almond-shaped amygdala in the brain, which impairs the rational function of the brain's pre-frontal cortex.

Critical thinking, discernment and problem-solving skills are also impaired, which play into the fraudster's hands. Such a weakened state suggests invoking what my high-school debate coach called the "four-second rule" (breathe deeply and exhale for four seconds) before responding to arguments or situations that pull you into irrational, illogical detours. (Some former presidents and other politicians, athletes, movie stars and
public figures might have avoided costly and embarrassing situations if they'd applied the four-second rule.)

Most fraudsters don’t know the neuroscience behind boosting oxytocin levels or hijacking amygdala, but they do know how to induce the effects in those who are in vulnerable situations, environments or positions. For example, "romance scams" defraud thousands of people in several types of phony romantic relationships.

Many romance scam victims retain email messages and photographs from fraudsters long after the end of a scam, which suggests the elevated remnant oxytocin levels and strong amygdala activity remains associated with the event.

The emotional and psychological devastation fraudsters leave in their wake can manifest in victims as insomnia, persistent feelings of anxiety, embarrassment and shame, loss of appetite, ongoing anger and resentment, depression and suicidal thoughts, which explains in many cases a reluctance to report the scams.

Elders — a special subset of potential victims — often find themselves in vulnerable situations. The National Center on Elder Abuse estimates that 90 percent of perpetrators are family members, caretakers, friends or neighbors - those the victims know.

Two high-profile, elder-abuse cases involve former astronaut Buzz Aldrin and his children and the late Marvel Comics legend Stan Lee and a memorabilia collector trying to gain control of Lee's $50 million estate.
Are fraud victims just too gullible?

We have a natural propensity to trust and cooperate with others. But without a filter that allows us to calibrate, evaluate, trust or reject incoming communication (what's called "epistemic vigilance" in academic circles — "BS detector" everywhere else), fraudsters have the advantage when they wield these weapons of deceit:

- Their authority to appeal to victims' trust.
- Visceral, emotive triggers to override rational evaluation of frauds.
- "Personalized scarcity cues" to create the impression that the offer is unique to the recipient, which induces compliance and commitment.
- Asking victims to make initial small-step commitments.
- Disproportionate gap between victims' small investments and alleged big rewards.

"Fraudsters and burglars are a lot alike; they just can't stop what they do," Rabon said. "If one building is tightly secured, the burglar will find a more vulnerable target. Identify an operational vulnerability, patch it and the fraudster will find another vulnerability."

Social networks: protective or exploitive environment?

A social network consists of the relationships and interactions within a group of individuals. Social networks are mediums for spreading information, ideas and influence among its
members. Economic sociologists emphasize that social networks provide a beneficial and protective role for members because they provide more "information symmetry" between buyers and a potential seller. In other words, buyers and a seller know all relevant information in a possible transaction.

Conversely, white-collar criminologists stress social networks' possible harmful and exploitative roles, in which social ties facilitate information asymmetry — the seller knows more than buyers — leading to successful economic crimes.

Social network diffusion

The power of social networks to distribute information is well-documented. "Social network diffusion" is the extent to which people are likely to be affected by their friends' and colleagues' decisions. For example, an investor's social network would include direct or indirect social ties to a seller or other investors, and influence through word-of-mouth promotion, advertising and marketing campaigns.

According to the "Social networks and loss of capital" study, investors without direct ties to principals and who did not conduct due diligence on potential investments lost more capital than investors with pre-existing ties to principals and who did conduct due diligence on those investments (79 percent versus 14 percent). This former approach worked well for Charles Ponzi. And Dennis Cope.
Case of Claudia Nelson: fraud victim turned fraud gumshoe

It's clear from visiting Claudia Nelson's website (tinyurl.com/ydyuabqx) that she's endured more than her fair share of tragedy. She lost her father to an auto accident while she was on her honeymoon, her mother and sister were murdered in their mountain cabin, she survived a battle with cancer, and in 2000, Dennis Cope, a teacher in a seminary of the Mormon Church, wiped out her and her husband's $100,000 life savings.

A 2012 PBS “MoneyTrack” episode chronicled Nelson's story. Harold Davis, an FBI special agent, said in the program that, "Dennis Cope represented to investors that their money would be placed in various high yield bank trading programs and represented they would be making returns up to 120 percent a year. The investments would be low risk, high return, and that their money would be placed in banks as collateral to be traded."

Cope held small secret meetings with potential investors to make them feel special, Nelson said, and made them sign non-disclosure agreements. Nelson repeatedly tried to find out how her account was doing, but Cope wouldn't respond. So, she asked for her money back. Cope had promised from the beginning that he'd refund any investor money.

When all she heard from Cope was crickets, she contacted the other investors in their small group — all of whom had religious backgrounds. She organized group prayer meetings for Cope, whom they believed at first was struggling with personal issues. But then someone in that group forwarded
Cope's entire email contact list to her. After she received emails from those on the list, Nelson assembled the puzzle pieces.

Cope was actually operating a classic Ponzi scheme. Nelson immediately initiated the formal legal compliant process and spent several years examining records to assemble a credible case against Cope.

In 2005, Cope was indicted on 32 counts, and in 2009, pleaded guilty to conspiracy and securities fraud that bilked hundreds of investors out of an estimated $18.5 million. In 2009, he was sentenced to seven years in prison. Cope's co-conspirator, Edgar Bias, was sentenced to eight years in prison in 2008 after pleading guilty to mail fraud, wire fraud and conspiracy. Bias was ordered to pay $8,484,733 in restitution.

Nelson cautions others in the PBS video. "If you find someone excessively charming, excessively generous - particularly if they are part of your religious ... or ethnic background – maybe you ought to look just a little bit deeper." Nelson later authored a book to help victims recover from adversity (Rising from the Ashes).

Cope's case shows how those who belong to social networks can succumb to infinity fraud even if they aren't in vulnerable situations, environments or positions.

**Fraud susceptibility index**

In my article on diamond fraud in the May/June 2018 issue of *Fraud Magazine* ("Fraudulent Facets," included here in this
I describe the "fraud susceptibility index," a basic equation I devised consisting of three variables: 1) paradox of value, also known as the "diamond-water paradox" 2) information asymmetry and 3) social network diffusion.

This simple equation doesn't address all types of fraud (romance fraud, for example), but it's a back-of-the-cocktail-napkin effort to determine fraud susceptibility for high-stakes investors and collectors of rarities.

The three variables do represent major categories that describe many attitudes and behaviors that fraud victims exhibit.

Perhaps more than one fraud susceptibility index exists — one that would have as variables: 1) degree of trust, 2) strength of narrative, and 3) present life situation/environment.

The "Financial Fraud and Fraud Susceptibility in the United States Research Report from a 2012 National Survey" states that self-reported victims of investment fraud weren't found to have any differentiating personality traits from non-victims of investment fraud."

However, respondents who participated in potentially fraudulent investments had higher extraversion ratings (outgoing personality), conscientiousness ratings (thorough carefulness) and open-to-experience ratings (willing to consider new opportunities). The survey found that those who lost large sums of money in a potentially fraudulent investment had higher openness ratings (in this use, blind acceptance) than those who hadn't invested.
Susceptibility can lead to bruised souls

Life situations trigger emotional, neurological and psychological factors that make fraud victims susceptible because the mind thrives on a good story. The smooth-talking fraudster conjures up narratives that play into our desires and dreams. A compelling, well-woven narrative can lower our guard while the protective nature of "epistemic vigilance" (literally "knowledge caution") surrenders to unconstrained emotions, beliefs and acceptance.

When the stories of our lives seem to us disjointed or incomplete or appear broken because of life circumstances - the fraudster provides the missing themes that, through our own volition, propels us toward compliance and our undoing.

Victims often carry scars that transcend loss of funds. Fraudsters can permanently bruise vulnerable souls with their deceptions and deceit. "For fraud victims, it's not about the money," Tiffany Couch said. "The crime of breached trust is more injurious than the missing funds."

Mass-market fraud casts a wide net of victims

Victims of cybercrime known as mass-market fraud (MMF) often suffer financially, psychologically and emotionally. MMF thrives on fraudulent email or website links (called "clickbait" or "phish bait") that upload computer viruses and ransomware or pull people into fraud schemes.

In some cases, MMF victims suffer from psychological harm so severe they've committed suicide. In the U.K., the 2016
Donn LeVie Jr.

National Crime Survey (Office for National Statistics) reported that citizens are 10 times more likely to be fraud victims by an overseas criminal while at their computers than to be physically robbed. §§§
When we have fewer emotional challenges, preoccupations and mental clutter we’re more actively aware of our surroundings. Our sharpened minds will be attuned to sights, sounds and other sensory input that can alert us to con artists’ attempts to hijack our emotions, our valuables and our dreams. Here’s practical information that you can give to your management, colleagues, families and friends.

Romance novelist Jude Deveraux has authored 43 New York Times bestsellers, sold more than 60 million copies of her books and enjoyed her fortune from the sales. But in the early 1990s, Deveraux sought help for a turbulent marriage and pregnancy difficulties at a New York psychic parlor where she met a woman who called herself Joyce Michael.

Over the next 17 years, Deveraux would trust Michael as a confidant, friend and someone who could help solve her problems, including her grief following the tragic death of her 8-year-old son in 2005. But Michael was none of those things.

According to the ABC News story, Michael encouraged Deveraux to distance herself from other friends and family
members and to sell her house and all assets. She manipulated Deveraux (and others) into giving her Deveraux’s money, jewelry and other valuables, claiming they were “cursed” and needed to undergo “cleansing rituals” before she’d return them.

Of course, Devereaux never saw those belongings and cash again.

Michael took advantage of Deveraux’s profound grief by claiming she could contact Deveraux’s dead son and prevent him from being “caught between heaven and hell” and she could transfer his spirit into the body of another boy so they could be together in this life.

“I kept coming back because she was listening to me. I’ve never been able to get anyone to listen to me,” Devereaux later testified at trial.

Michael also said Deveraux’s spirit was in the body of another woman secretly married to Brad Pitt.

Michael is really Ruth Marks, a member of an extended family of psychic con artists who operated in New Jersey, Florida and other states, from as far back as the 1940s in San Diego County. For over 17 years, Marks defrauded Deveraux of $20 million and used empty promises of hope to also steal her sense of safety, love, belonging and self-esteem using empty promises of hope. Though Deveraux had had a financially rewarding literary career, she was left with almost nothing.
In 2013, Marks was found guilty of fraud and sentenced to 10 years in federal prison. She lost an appeal of her sentence in 2016.

Influential/persuasive intelligence is a tool that was used by a museum’s expert curator of antiquities as she implored the trustees to approve the purchase for a rare Greek amphora in excellent condition. The same tool was used by a European con artist to fool the museum’s curator (and trustees) to part with millions of dollars for a more contemporary piece not thousands of years old, but barely 120 years old.

The curator’s emotional excitement for the find impaired her professional judgment and skepticism, leading to actions that were contrary to the interests of the museum, the trustees, and patrons. The narrative was so compelling that she felt she had no choice but to acquire the piece.

**How do people fall for such foolishness?**

Every predator on the hunt senses some type of distress signal in potential victims. That’s also the con artist’s modus operandi.

Let’s first look at how Marks got Deveraux’s attention. Marks used the “influential and persuasive intelligence” method to create emotional empathy and engage Deveraux by establishing familiarity, likeability and trust because she knew Deveraux was successful and a woman of means. (Antithetically, strong “presence-driven leaders” — those who empower, motivate and inspire others — use influential and persuasive intelligence for unselfish reasons.)
She played on Deveraux’s grief, despair and desperation and then applied techniques of persuasion — demonstrating her authority and drawing Deveraux deeper into Marks’ twisted narrative. Once Deveraux was convinced of the narrative, Marks asserted her influence to completely control Deveraux.

**Life situations often trigger opportunities for brain hacks**

The advent of cognitive neuroscience technology has allowed researchers to pry deeper into the brain to discover areas that influence thoughts and actions when stimulated by certain triggers. Vulnerable life situations, such as divorces, deaths of spouses or children, bankruptcies, layoffs and life-threatening illnesses upset the brain’s neurological functioning.

Three areas of the brain undergo abnormal activity during emotional trauma:

- The *amygdala*, responsible for emotions, becomes over-activated.
- The *hippocampus*, responsible for short-term memory, begins recycling the traumatic event obsessively.
- The *prefrontal cortex*, especially in the area that arbitrates emotions, becomes weaker.

The mind in such a condition leaves people susceptible to impulsive decisions that overrule any logical decision-making or due diligence. Historically, con artists, charlatans and grifters have capitalized on turbulent social, cultural and economic situations and on the lives of people during fractured, exposed and emotionally unprotected life situations. They strike when individual power to resist has been at its
lowest and the influence of emotional distraction is at its greatest.

To ply their craft, the most notorious con artists have exhibited behaviors congruent with three destructive personality disorders.

Psychology recognizes three groups of people with personality disorders that fall into what it calls the Dark Triad: Machiavellianism, narcissism and psychopathy.

Those suffering from Machiavellian tendencies are so highly self-centered that they manipulate, deceive and exploit others to achieve their goals. The saying “the end justifies the means” captures the Machiavellian personality, though Niccolò Machiavelli — after whom the tendency is named — didn’t originate the phrase. However, he did write, “For although the act condemns the doer, the end may justify him. …” in “The Discourses.”

Narcissism (narcissistic personality disorder) is the pursuit of fulfillment from egotistic admiration of one's idealized self-image and features. The term originated from the ancient Greek myth of the young Narcissus who fell in love with his own image reflected in a pool of water. Narcissists typically have inflated egos, repressed insecurities and few social boundaries. Also, they lack empathy and strongly need attention.

Individuals with psychopathic personalities exude charm, lack remorse, exhibit extreme arrogance, are big risk-takers, lack deep emotional attachments and are expert manipulators.
Psychopaths can share characteristics of Machiavellianism and narcissism, and have fewer constraints on their behavior, which makes them more likely to inflict emotional, psychological or physical pain on others.

In a recent article on psychopathy among C-suite executives, researchers reviewed 92 independent data samples on people's psychopathic tendencies to learn whether they rose to leadership positions, and how they, and others, evaluated their performance as leaders. Results showed that individuals with psychopathic tendencies were slightly more likely to become leaders but were less likely to be seen as effective leaders.

What behaviors counterbalance Dark Triad personality disorders?

While there’s no officially recognized “white triad” to offset the Dark Triad, one recent proposal offers three opposite factors:

- **Kantianism**, after the Age of Enlightenment philosopher Immanuel Kant, who advocated treating people as ends unto themselves, not mere means.
- **Humanism**, which values the dignity and worth of each individual.
- **Faith in Humanity** that believes in the fundamental goodness of humans.

“Presence-driven” leaders who possess influential/emotional intelligence, consistently exhibit three factors that are more practical in individual encounters than the more philosophical white-triad elements:
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- **Compassionate morality**: Possess honesty, humility, conscientiousness and restraint plus feel guilt for private lapses of these qualities and remorse for public ones.

- **Empathy**: Show receptivity to the emotions and feelings of others.

- **Principled ethics**: Are honorable, just, noble, righteous and virtuous.

Both the white triad and the presence-driven leader triad serve the interests of others whereas the Dark Triad is completely and totally self-serving.

**How the brain’s neurochemistry makes us unwitting co-conspirators in scams**

I’m not a doctor nor have I played one on TV, but a simple overview of how the brain’s neurochemistry works will help explain the significant role it plays in the con game and how we unwittingly conspire to allow our brains to be hacked.

The brain’s frontal neocortical area directs behavioral control through “executive functions” such as abstract thinking, motivation, planning, attention to tasks and inhibition of impulsive responses. The limbic system is responsible for emotion, anxiety, fear, impulsiveness and the “fight or flight” response to real and perceived threats.

Emotional susceptibility is often brought about by some important life event. Neurotransmitters in the brain’s limbic system are responsible for intricate social bonding, and
feelings of well-being, empathy and indifference. (For more information on the role of some neurotransmitters in regulating emotion, anxiety, fear and pain, see the article entitled: “Who’s more susceptible to fraud?”)

Con artists work hard during the engagement phase to be likeable and convey familiarity, empathy and trust. All of this elevates certain hormone levels in the brains of potential victims that short-circuits caution, carefulness and due diligence. Con artists are unwitting experts at manipulating brain chemistry — all without knowing the molecular formula for a single cerebral neuropeptide. The potential victim’s trigger life event, their emotional state and the strength of the bogus narrative all work in the con artist’s favor.

An impaired rational center for executive functions (neocortex) also plays into the con artist’s world. When the almond-shaped amygdala receives a boost of oxygen and blood from either a real or perceived “fight of flight” stress/fear/anxiety-producing event, a person’s response occurs between 12 and 30 milliseconds, which immediately overtakes the executive center that requires 250 to 300 milliseconds to activate. The neurochemical effects of an “amygdala hijack” dissipate in about six seconds in non-life-threatening situations if someone can hold off that long before reacting.

In other trigger situations, people might forgo the six-second-wait rule because of a pre-existing emotional buy-in that spirals into a deeper voluntary commitment to the scam. Such a situation gives the con artist a green light to continue moving forward.
Other ways we let con artists hack our brains

Con artists use potential victims’ behavioral impulsivity and/or susceptibility to various ploys. It’s natural for our impulsiveness to increase as we expect increasing financial gain, whether that comes from a promised six-figure investment payoff or a chance to double a $20-dollar bet in a street game of three-card Monte.

Those who are fatigued from lack of sleep or long work hours are more rigid in their thought processes, have more difficulty responding to changing or abnormal situations and take more time to reason properly. Individuals suffering from this onset of cognitive tunnel vision that affect the parietal lobe (integration of sense information) and occipital lobe (visual processing) could be unwitting participants in a scam.

Avoid con artists’ brain hijacks

Here are a few tips to help avoid brain hijacks by con artists:

- Recognize your emotional vulnerability during times of great stress, anxiety and/or loss. Your brain’s executive center for rational thought might be overrun by activity in the “fight or flight” region. Just knowing you might be vulnerable to impulsive decisions and/or irrational thoughts (or behavior) places you on the alert for such actions.

- Wait six seconds before reacting to an emotionally charged situation that really demands rational thinking. The chemicals involved that place you in a
highly emotionally charged state dissipate quickly if you can hold off reacting or making a decision.

- Be aware of factors that do not work in your favor with con artists during emotionally vulnerable times. Questions to ask yourself: Am I actively engaged in thinking through this situation, or am I being a passive potential victim? Do I know more about this proposal/offer than the other party, or am I dangerously ignorant? Am I too emotionally invested in this proposal/pitch? Do I really know this other person well enough to trust them? Should I buy in to this offer because my friends have? Am I trying to deal with too many other emotional challenges at this time?

**Don’t passively embrace sensory input**

We all can benefit when we unlock our capabilities for being more mindful and astute observers, and for applying better logical deductions when presented with opportunities that appear too good to be true. Being more actively aware to the world around us rather than passively embracing it all sharpens our minds to those sights, sounds and other sensory input that can alert us to forms of threat or danger, including those of the con artist’s attempt to hijack our emotions, our valuables and our dreams.

On the most basic level, our brains initially see the world through a lens that accepts everything as being true. This default condition helps the brain quickly process information. It’s the path of least resistance to navigate in an increasingly complex world. The brain must work harder to process things
that aren’t as they seem because it demands extra effort to heighten awareness, be present and reflect more deeply.

The fewer emotional challenges, preoccupations and mental clutter we have going on in our lives, the better able we are to defend against con artists. As author Maria Konnikova writes in, *Mastermind: How to Think Like Sherlock Holmes*:

“…the most powerful mind is the quiet mind. It is the mind that is present, reflective, mindful of its thoughts and its state. It doesn’t often multitask, and when it does, it does so with a purpose.”

**Lies, brain scans and the law**

Functional magnetic resonance imagery (fMRI) is a neuroscience technology that measures brain activity by detecting changes in cerebral blood flow that are correlated with brain cell activation. Commercial fMRI companies claim up to 99% infallibility detecting deception; however, recent experiments have shown skilled individuals can generate false fMRI readings.

As neurotechnology becomes more advanced, could they eventually reveal that our actions are predetermined? According to Dr. Steven Hyman, director of the Stanley Center for Psychiatric Research, Broad Institute of Harvard University and MIT, even if an fMRI brain scan found abnormal activity in a region associated with impulse control or emotion regulation, it would show only correlation, not causation, which means the information would have little use in court.
Cognitive neuroscience and law professionals must address these questions:

- How will fMRI results affect “neuroprivacy” and confidentiality protections?
- DNA, blood tests, psychological exams, urinalysis and fingerprints are all admissible evidence used in courts today, so why not fMRI results?
Got Bad Leaders? Increased Fraud

Hidden consequences of poor leadership

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Do you want to make sure you have more fraud in your organization? Then hire bad leaders and then poorly train them with outdated leadership methods. Here’s how to avoid costly employee disengagement by changing bad leader attitudes and behaviors.

Hypothetical (but common) situation

Rebecca is frustrated. She’s been a fraud examiner and internal auditor in a large corporation for four years. Rebecca enjoys every aspect of the evidence hunt, including working with sources, response teams and counsel; interviews; analyzing documents; data analysis and digital forensics. She abhors only one part of her job: collaborating with her boss, Jennifer, the vice president of accounting.

Jennifer can be — alternatively — overcautious, obstinate, dismissive and overbearing. Rebecca feels that Jennifer often inappropriately puts the brakes on Rebecca’s fraud examinations, which often wastes her time and occasionally allows fraud to accelerate unabated. Rebecca is losing interest
and creeping toward *job disengagement*. The corporation is losing out because of Jennifer’s poor leadership skills.

**You have bigger concerns**

Forget about lost job productivity because of solar eclipse day, Super Bowl Monday, March Madness, Black Friday or the World Cup. Worry instead about the *daily* revenue leakage from disengagement and lost productivity that's costing U.S. companies $350 billion annually in lost revenue because of ongoing ineffective leadership.

We’ve all worked for people with differing leadership styles: from the autocrat (“*do it my way*”) or the bureaucrat (“this is the policy”) to the laissez-faire proponent (“let them do it”) and every other style in between. Regardless of the dominant leadership style, ineffective leaders — those who are abusive or incompetent on several levels — are a financial and intellectual capital drain for companies everywhere. That can translate into botched fraud examinations and more opportunities to commit fraud.

**Employee disengagement is widespread and costly**

Far too many organizations suffer from poor or ineffective leadership, which the Gallup organization cites as a major contributor of employee disengagement and lost productivity. The Gallup organization, through extensive research documented in its “*State of the American Workplace Report,*” found that, on average, 17.2% of an organization's workforce is actively disengaged — they’ve unplugged and checked out. Gallup also found that an actively disengaged employee
costs an organization $3,400 for every $10,000 of salary, or 34% of pay.

According to that Gallup report:

- Two-thirds of U.S. employees admit to not being engaged in their work and workplace, whereas 18% are "actively disengaged," and could be impeding not only their own performance but also the work of colleagues.
- Only one-fifth state that their performance is managed in a way that motivates them to do outstanding work.
- 78% of employees strongly do not agree with the statement: "Leadership has a clear direction for the organization."
- 85% of employees strongly do not agree with the statement: "Leadership of the organization makes them enthusiastic about the future."
- 87% of employees strongly do not agree with the statement: "Leadership of their organization communicates effectively with the rest of the organization."

**What does employee disengagement look like?**

Disengaged employees (doing just about anything other than real work) are those whose performance, attitudes and behavior have decreased to levels less than acceptable for success. They might lack challenging work, suffer from boredom, work long hours or just lack any personal initiative. When left unchecked, these elements can cascade through the
workforce like an epidemic. It becomes difficult to shield those not yet influenced by such widespread detachment.

Let’s take employee disengagement one step further. This workplace detachment can reveal itself in more costly issues over months and years, leading to:

- Lost market share (competitors gaining market share)
- Revenue loss
- Higher overall employee turnover
- Higher incidence of on-the-job safety problems
- Lost shareholder value (lower stock price, lower analyst expectations/forecasts)
- Loss of key employees
- Quality and customer service issues
- Internal fraud and abuse

Higher absenteeism (legitimate and otherwise; poor leadership affects workplace stress and can lead to depression and cardiovascular health issues for employees.

In extreme cases of disengagement, employees can sabotage financial records and capital equipment or even become violent. These dangerous scenarios are bigger issues than poor leadership; they now become a corporate culture problem.

Losses from employee disengagement tempt organizations to implement programs for boosting employee morale, motivation, communication, team building, etc. Such programs designed to correct disengagement and productivity
issues focus on strategies, tactics and analytical approaches for employees.

But disengaged employees are a *symptom* of poor, ineffective leadership. That’s focusing on the wrong end of the problem. To quote a line from the movie, “Indiana Jones and the Raiders of the Lost Ark”: “They’re digging in the wrong place.” To work on the cause, we must look further upstream.

**Two subtle but significant consequences of ineffective leadership**

Organizations need to change attitudes, behaviors and — sometimes — people in leadership positions well before they contribute to the creation of a toxic work environment. These interventions require an understanding of two subtle — and rarely addressed — influential psychological factors: how poor leadership contributes to the psychological depletion of “shared resources” (financial resources, inventory, human skills, production resources, and information technology and natural resources) and how it destroys workplace “psychological empowerment” (emotional belief that leaders fully empower their workforces to apply their talents and experience to accomplish the objectives of the organization).

**Psychological depletion of shared resources by poor leadership**

In 1968, evolutionary biologist Garrett Hardin coined the phrase, “tragedy of the commons,” to explain several types of environmental over-exploitation. Examples include the ocean garbage “gyres,” overfishing of cod in the Grand Banks, demise of passenger pigeons and the Gulf of Mexico dead zone.
Any shared resource in a population is subject to the same pressures of self-interest, unconstrained consumption and exploitation that ultimately lead to scarcity, depletion, destruction or extinction — even with shared values and corporate culture attitudes within company walls.

Poor leadership is a contaminant originating upstream in the work environment. Its effects can quickly pollute downstream in hallways, break rooms and conference rooms. It can create a type of psychological depletion of shared resources, such as the adoption of common corporate values, culture and mission, which eventually leads to a “tragedy of the corporate commons.” Poor or ineffective leadership creates these and other hidden consequences that erode the shared workforce bonds that company values (integrity) and company cultures create.

Don’t discount the value a culture of integrity provides to shareholders and employees. Corporate culture integrity has a positive correlation with financial performance and appeal of job openings.

The end result manifests as employee disengagement and lost productivity, in which the needs of the one or the few become a higher priority over the needs of the many — to paraphrase and flip a quote attributed to Charles Dickens. It’s a loss of that collective, unified commitment to company goals and objectives and to the tasks at hand that’s replaced with individual self-interest.
Poor leadership destroys workplace psychological empowerment

When we think about our jobs, they’re more than positions that deliver a specific function; they also provide emotional, social and political currency – the invisible capital – that we exchange in workplaces everywhere. Because of these different value aspects that jobs provide, employees are more than job titles, job descriptions, or promoters of products and services.

We can further explain this invisible capital that leaders and employees exchange, or workplace psychological empowerment, via four related dimensions: competence (or aptitude), meaning (or value), impact (or influence) and self-determination (or autonomy). See the graphic of “Four dimensions of workplace psychological empowerment” on page 44 for details.

Early signs of ineffective leadership often appear as fractures in any of these four dimensions because workplace psychological empowerment is at its fullest when employees believe that their leaders have given them complete freedom to do their jobs. Of course, that doesn’t imply that employees aren’t accountable, but they have the autonomy to use and grow their skills to meet and exceed their work goals.

When people believe they no longer have the freedom to engage these four psychological empowerment components, they might feel threatened and begin disengaging. Often negative changes in a manager’s dominant leadership style (embracing a more autocratic style, for example) or even abruptly switching senior executives can cause employees’
Disengagement and corresponding productivity losses as they adjust to uncertainty.

Because work relationships and processes are complex, effective leaders know that merely following defined roles or procedures can produce frustrated employees. Indefatigable leaders also embrace initiative, risk assessment and working with uncertainty.

**Leadership programs fail because they focus on the wrong part of the brain**

According to the *Harvard Business Review*:

> American companies spend enormous amounts of money on employee training and education—$160 billion in the United States and close to $356 billion globally in 2015 alone—but they are not getting a good return on their investment. For the most part, the learning doesn’t lead to better organizational performance, because people soon revert to their old ways of doing things.

Organizations often unwittingly prevent leadership training from taking root by thinking that employee events, such as one-day workshops or seminars, will suffice instead of slowly building long-term, continuous-reinforcement processes. And there’s another major problem.

“Unfortunately, far too many training programs that intend to build leadership skills – including emotional intelligence – are a waste of time and money,” writes Daniel Goleman, who co-directs the Consortium for Research on Emotional Intelligence.
in Organizations (eiconsortium.org) at Rutgers University. “The problem is simple: They focus on the wrong part of the brain.”

According to Goleman, most of these failed, wrong-part-of-the-brain leadership programs teach techniques that appeal to the neocortex where logic, reasoning, analytics and concepts thrive. However, emotional intelligence (the ability to be aware of, control, and express one's emotions, and to address interpersonal relationships thoughtfully and compassionately) arises in the neurotransmitters of the brain’s limbic system, which directs feelings, impulses and emotions.

Emotional intelligence (EI) training focuses on developing strategies in five major areas: empathy, self-management, relationship management, social awareness and self-awareness. EI training is not “one and done” but requires frequent reinforcement of key learning components, individual and small-group activities and role playing, and individual coaching over many months. EI training is more about changing old habits and attitudes and replacing them with new ones that enhance employees' soft-skill inventories.

What about the psychological depletion of shared resources and workplace psychological empowerment? At first glance, they seem to lend themselves to neocortex processing, but it’s the emotion tied to the belief of having the freedom to be fully and completely engaged, contributing and adding value in a work role that directs limbic processing.
Leadership presence, ‘engagementality’ and ‘connectworking’

Organizations want their future C-suite leaders to have *presence* more than any other soft skill. They want them to have the ability to amicably engage others, establish personal connections and build trust, confidently position their leadership expertise as offering value for others, and interject wise influence to gain acceptance or cooperation of ideas and initiatives naturally and comfortably. The strength of their presence is a catalyst for mentoring others or serving in advocate-protégé arrangements.

If poor, ineffective leadership is a direct cause for employee disengagement and lost productivity, we hear a clarion call for *leadership presence* that prioritizes the power of emotional intelligence. Organizations can teach and reinforce it through proper training, coaching, and follow-up that’s not just repackaged, repurposed, retitled relics from decades past.

“Engagementality,” the attitude of always being ready to engage others in a manner that demonstrates interest, becomes a mandatory commodity for leaders. Rather than traditional networking, which assumes a strong *quid pro quo* relationship, leaders engage in “connectworking,” to further build relationships for unifying effort, direction and purpose. People don’t follow leaders without becoming familiar with them, then trust them, and finally believe in their expertise, experience and knowledge that accompanies that authority.

Engagementality and connectworking will help lay the groundwork (through training, coaching and follow-up reinforcement) for making leadership presence in your anti-
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fraud organization a practice that can turn into a competitive advantage. Presence-driven leadership isn’t just for executives in the corner office because being a “leader with presence” isn’t a job title; it’s a powerful skillset anyone can master.

Ineffective leaders and unproductive practices ultimately lead to revenue leaks through a variety of channels, not the least of which are the psychological depletion of shared corporate resources and the absence of psychological workplace empowerment. In extreme cases, disengagement can devolve into destructive actions or behaviors that can threaten the safety of work environments and enable fraud.

The most effective approaches groom high-potential professionals early in the leadership development process and throughout their advancement into senior and executive positions, which helps prevent “attitudinal sclerosis” — hardening of the attitudes.

Workplace empowerment doesn’t mean overloading employees with additional responsibility and challenges that place them in high-stress mode. Psychological empowerment is the emotional belief that a person has the authority, freedom, support and confidence of leadership to accomplish objectives under their charge. Employees who embrace this type of empowerment from leaders in the work environment have stronger job performance, greater job satisfaction and a deeper commitment to organizations’ objectives.
FOUR DIMENSIONS OF WORKPLACE PSYCHOLOGICAL EMPOWERMENT

The four dimensions of workplace psychological empowerment — **competence, self-determination, meaning and impact** — help drive employee engagement and productivity, especially when employees believe they have the freedom to fully deploy their expertise and value in the work environment. When poor or ineffective leaders invoke behaviors, attitudes or policies that threaten that employees’ beliefs in any of the empowerment dimensions, they can create an atmosphere that’s ripe for the negative cascading effects of disengagement and productivity issues. §§§

*Figure 1: Four dimensions of psychological workplace empowerment.*
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Wilbur and Lorin Wright:
The other Wright brothers (and fraud investigators)


The world knows that Orville and Wilbur Wright were the two-man team credited with designing, building, and flying the world’s first successful powered flight in a heavier-than-air machine and putting Kitty Hawk, North Carolina on the map. Not bad for a couple of brothers who first got into the printing business, and later opened a bicycle repair shop in Dayton, Ohio.

But it is a little known fact that Wilbur, along with his older brother Lorin, came to the aid of their father Bishop Milton Wright, an itinerant “circuit” preacher, to expose suspected financial abuse in the United Brethren Church.

Wilbur was a natural when it came to numbers; his diaries are full of trigonometry calculations for glider wing curvatures; exact measurements of distances and times flown; screw (propeller) pitch, length, and curvature; wind resistance and thrust; converting foot-lbs. of force to horsepower, and so much more. He was a meticulous record keeper as was Orville.
Lorin (his parents named him after a community on a map) involved himself with bookkeeping positions in Kansas before returning to Dayton, Ohio. His bookkeeping job and four children kept him fully engaged but later managed to look after Orville and Wilbur’s bicycle business with sister Katherine when they were away pursuing more “lofty” enterprises. Lorin was available at times to help with research and field tests when an extra pair of hands was needed.

Bishop Wright constantly extolled the virtues of a quality education. He instilled in his children (four sons and a daughter; a set of twins, Otis and Ida died shortly after birth) a fervent desire for knowledge, in particular the sciences, ethics, history, literature, mathematics, and theology while also nurturing their moral fiber and cultivating their faith. When any of the children missed a school day, Bishop Wright never worried because he knew their noses would be buried deeply in the many books that populated the Wright home.

**Trouble brewing in the Brethren Church**

From 1888 to 1896, the United Brethren church underwent a schism with two factions vying for control. The conservative faction of the church, referred to as “the Radicals” and led by Bishop Wright, held that Freemasonry was in direct conflict with the church constitution and its teachings.

The opposing group (called “the Liberals”) argued for accepting Freemasons and their secretive ways, claiming that Freemasonry represented the changing times and should be accommodated. If the effort proved successful, church membership and church coffers would have increased
immensely. In addition, the opposing group proposed changes to the church constitution that would bypass the rules for amending the document.

Wilbur supported his father’s position on the issues at hand by authoring articles and editorials to counter the arguments made by the Liberals. In the end, however, Bishop Wright’s efforts did not prevail in the courts and his subsequent role in the church became virtually non-existent.

Most of the congregations which supported Bishop Wright were mandated to surrender their real property (main offices, colleges, publishing houses) to the Liberals, which the courts recognized as the legal and rightful owner of all church property. Bishop Wright eventually started a new church to be known as the Old Constitution Church.

**An exposé of “defalcations”**

Not one to settle for defeat, Bishop Wright and others in 1895 suspected financial irregularities with the books for the United Brethren Publishing House. Six years later, Bishop Wright initiated an investigation of Reverend Millard Fillmore Keiter, the individual in charge of publications house. It appeared that Reverend Keiter, who replaced Bishop Wright’s duties as the church publishing agent in 1893, had used nearly $7,000 of church money for personal expenses.

Interestingly, no official audit of the publishing house records was conducted until after Keiter was relieved of the position shortly after the accusations against him surfaced. An account on page 6 of the *Indianapolis News* from May 21, 1901, stated
that “The Rev. Mr. Keiter’s accounts were approved by the [church] conference, thus vindicating his management.”

In February of 1902, Bishop Wright recruited Wilbur and Lorin to review the church accounting records. Wilbur reported that “there is something rotten somewhere” and managed to discover that Reverend Keiter had applied church monies toward personal insurance premiums, personal clothing, and part of the construction cost of a new home.

When the board of trustees of the church convened later that month to review the accusations against Keiter, they ruled in favor of Keiter’s defense, in spite of the evidence, that the disparities could be attributed to simple carelessness, and not intentional fraud.

The clear implication of the judgment from the Publishing Board of Trustees was that they preferred to have the entire matter closed as quietly as possible, especially with the rupture that divided the church just a few years earlier still reverberating through the denomination. Calling attention to fraudulent transactions involving church finances would likely have constrained the filling of collection plates.

Wilber wrote to his father on February 15, 1902, that they must pursue the case against Keiter.

*The question of whether officials shall rob the church and trustees deceive the church for fear of injuring collections, must be settled now for all time. In the long run nothing can be gained financially by deceit. To cheat the people by lying*
reports is more dishonest than Keiter’s stealing, and so far as church interests are concerned, the penalty will be greater.

Several months later after a more in-depth investigation of the publishing house accounting records by Lorin and Wilbur, Wilbur concluded in a letter to his father that Reverend Keiter’s ledgers indeed appeared to be “very crooked.” Wilbur believed that some members took the position that because the Freemasons could not belong to the church—and church members could not become Masons—they would remake the church into a parallel institution as it concerned “defending a brother right or wrong.” Bishop Wright likewise surmised another ulterior motive for the silence of the board of trustees: keeping the offering plates full.

The Brethren Church faction that opposed Bishop Wright was not finished with him, and the spring and summer of 1902 promised to be a challenging time for the Wright family.

The battle heats up

Bishop Wright was growing impatient with how the church was addressing the Keiter situation. When Bishop Wright was excluded from the Church newspaper, he flooded congregations with petitions and pamphlets, and accused Reverend Keiter of criminal activity. Keiter was arrested for forgery. However, Bishop Wright’s “going to law” against a fellow Christian was considered a violation of the Brethren discipline.

Again, Reverend Keiter was exonerated of the fraud charges despite the mounting evidence against him. Keiter filed
disciplinary charges against Bishop Wright for “agitating controversy.”

There was a groundswell of reaction within the church against Bishop Wright, who many believed had pushed his cause too far. Supporters of Reverend Keiter leaked news of the controversy to the secular press, further compounding Bishop Wright’s woes.

Wilbur found the situation with Reverend Keiter to be “inconceivable, incomprehensible, and incredible.” Capitalizing on this wave of sentiment, Reverend Keiter accused Bishop Wright of libel and filed charges even while Wilbur and Lorin continued examining the publishing house books and discovering more evidence of financial misappropriation “every few days.”

It seemed that returning to Kitty Hawk for Orville and Wilbur was just the remedy required for Wilbur, who “was completely unnerved” from the entire situation with the church and Reverend Keiter, according to sister Katherine. Both Orville and Wilbur were confident that the entire circumstances that enveloped the family would come out in Bishop Wright’s favor.

**Truth wins out**

And “Wright” they were. A church conference in Grand Rapids, Michigan two years later voted by a two-thirds majority to exonerate Bishop Wright. According to letters from Bishop Wright, Keiter’s former friends had come around to
recognizing his shady character, and he had since “gone to Tennessee as a timberland speculator.”

In fact, Millard Keiter was subsequently convicted of land fraud in Kentucky.

In the end, it was a family effort that cleared Bishop Wright’s reputation. Orville helped by typing and printing the necessary documents, sister Katherine provided her father with encouraging support, and Lorin scoured the publishing house ledgers with Wilbur’s help. Wilbur stepped up to serve as the Bishop’s lead counselor by outlining a strategy that incorporated political tactics, legal maneuvers, application of Church law, and a strong defense against disciplinary charges devoid of any substance or truth. He knew that “the real purpose was to harass the accused.”

**Lasting legacy**

Bishop Milton Wright was instrumental in the founding of Huntington University in Huntington, Indiana, having laid the cornerstone of the school’s first building in August 1896. In the lobby of Wright Hall, a residence hall on the campus, hangs a plaque holding a swatch of the original fabric covering the first Wright Flyer. Another piece of wing fabric was carried aboard the space shuttle *Discovery* in 1998 by former astronaut and Senator, John Glenn.

Wilbur, his brothers, and sister were the embodiment of Bishop Wright’s philosophy that a strong education, moral character, and a cultivated faith will equip any individual for life’s challenges and opportunities. They had the Wright stuff.
Donn LeVie Jr.
From the Underworld to the Boardroom: True Tales of Fraud, Corruption, Counterfeiting, and Cons

6

Predatory Publishing
Rise of scholastic and academic fraud

First published in Fraud Magazine, Vol. 35 No. 1 Jan/Feb 2020

Thousands of budding researchers and academics are unwitting victims of predatory publishers. After authors pay upfront, they receive little of what the publishers promise them. And many more desperate doctoral candidates and academics trying to earn tenure willingly turn to these shady publishing options because the competition for prestigious positions is intensifying. Universities often look the other way, and academic rigor suffers.

After teaching for several years in a small university, Mukesh was eager to have his finance theory published in an academic journal. He hoped to boost his chances of moving to a prestigious university and a more rewarding career. He knew that Ph.D. teaching jobs were hard to come by and so was publishing in leading academic journals.

Mukesh received a flattering email from an academic publisher, The Journal of Finance and Economics, saying he could have his theory published in the journal for $495. The publication promised him the services of industry-respected reviewers; an editorial staff; Google, Scopus and Web of
Science indexing; reference validation; and much more. For an additional $1,500, the journal’s academic conference would invite Mukesh to present his paper with influential researchers in his field. Mukesh submitted his paper with a check for $1,995. He was overjoyed about the promise of finally being published in a respected journal and presenting to a conference of peers.

However, Mukesh faced a major problem. The Journal of Economics and Finance is an esteemed Springer publication. The similar-sounding Journal of Finance and Economics, is a less-than-legitimate journal — one of many thousands in the predatory publishing industry.

Many budding researchers and academics, like Mukesh (in this fictitious case), pay these bogus journals upfront but receive little of what’s promised them — from editorial services and reviewers to conferences without leading experts as presenters. What’s worse, many more academics knowingly turn to these shady publishing options as competition for prestigious teaching and research positions intensifies. These conditions entice desperate doctoral candidates to seek out any shortcuts available to them and help proliferate more than 10,000 fraudulent journals containing hundreds of thousands of articles of questionable technical and editorial rigor.

The competition for ever-shrinking, prestigious, tenure-track teaching and research positions has become hyper-intense. Adding to the challenge is the shrinking pot of federal and private grant money for doctoral candidates to conduct that research. Academics depend on published scholarly research
to enhance their reputations and promotion potential; the universities where they teach rely as well on that published research to attract students and bolster endowments and sponsorships. The situation is ripe for fraud.

**Rise of ‘open-access publishing’**

Established professional journals require weeks or months of peer reviews and rigorous editorial revisions before articles meet standards. Nonsubscribers can read articles and papers only if they pay these journals.

In “open-access publishing” (OAP) — the flip side of the traditional journal publishing revenue model — authors pay to be published, and the articles are free to anyone. Because OAP revenue relies heavily on author-subsidized payments, and readers to a lesser extent, publishing in an OAP journal can run between $1,500 to $3,000 or more.

**Predatory publishing and empty promises**

Most predatory journals, the dark side of OAP, are based in developing countries, especially continental Asia, India, Pakistan and Nigeria. The fraudulent, predatory OAP publishing model lacks editorial and content quality, peer/expert review and ethics controls that respected scholastic journals embrace.

**Types of predatory publishers**

Phishing: Once predatory publishers lure authors with promises, they “accept” their academic and research papers and send them costly invoices for publication.
Imposter/hijacker: Predatory publishers mimic respected journals using same fonts and sizes and style. And a journal title might include an extra word as a subtle differentiation from a legitimate journal. Websites are designed to appear similar to legitimate publications.

Trojan horse: Predatory publishers’ websites look impressive with extensive lists of “publications” and samples of plagiarized or stolen articles.

Unicorn: These could be legitimate academic publishers but might fall short on editorial services, expert peer review, publishing ethics, etc.

Predatory publishing is pseudo-scholastic fraud that can have dire consequences. Such publications exploit academic authors and dilute the validity of bona fide research, ignore the importance of the repeatability of research results and, in some cases (in the biomedicine and engineering fields, for example), can threaten the health and safety of the public.

Until very recently, the majority of authors who’ve published in questionable scholarly journals (knowingly and otherwise) suffered little to no repercussions for selecting that option, which raises an important question: Are universities complicit in encouraging publication at any cost?

Blind eye to faculty publishing in predatory journals

Predatory publishing exploits the “publish or perish” mantra that for decades has echoed in the halls of academia. The practice is growing rapidly in emerging economies, especially
in Asia and Africa, where the majority of fraudulent scholastic articles are published. The intense pressure to establish published scholastic credentials through legitimate and respected academic journals creates opportunities, and perhaps the motivation, for cutting corners and side-stepping ethical and legal publishing practices.

In one example, a university presented a researcher with the dean’s research award for multiple articles that predatory publications published. Tenure and promotion rely in part on such awards, and those awards sit upon a foundation built from articles published in academic journals. In another instance, one researcher was celebrated publicly for being named the editor of a journal that was known as a predatory publisher.

When universities turn a blind eye to faculty publishing in predatory journals, their gilded reputations as institutions of higher learning become tarnished as they sacrifice academic integrity for the temporary glitter of outward appearances to attract grants and donors. “When hundreds of thousands of publications appear in predatory journals, it stretches credulity to believe all the authors and universities they work for are victims,” Pyne says in an interview.

**Anatomy of a predatory publishing sting operation**

Dr. Anna O. Szust (real name and position: Katarzyna Pisanski, postdoctoral researcher at the University of Lyon, Saint-Etienne, France; “oszust” is Polish for “fraudster”) created a bogus résumé, when she was a research associate at the University of Sussex School of Psychology, which listed phony
degrees, experience, publications and publishers. She then applied for editorial positions at 360 randomly selected OAP journals — 48 of which accepted her for the position — and four awarded her the editor-in-chief position. The larger percentage of legitimate OAP journals rejected her phony qualifications outright.

One of the predatory journals actually invited her to start a new journal and serve as its editor, while earning 30 percent of the profits. Another suggested she organize a conference; the journal offered her 40 percent of the proceeds and said it would later publish speakers’ papers.

After Pisanski proved the existence of these predatory publishers, “Dr. Szust” wanted to withdraw her application for the editor position from the journals that had blindly accepted her. That was a near-impossible task because she was listed on the editorial boards of nearly one dozen of those predatory journals. Dr. Szust was even listed as an editor for a journal to which she didn’t apply.

Prosecuting predatory publishers

In early April 2019, a federal judge in Nevada ruled that Omics International, an Indian publisher of several hundred predatory scholarly journals, violated fair business practices and granted the Federal Trade Commission (FTC), which brought the charges, a $50 million judgment. The amount represented revenue Omics generated from scammed authors and conference presenters between Aug. 25, 2011, and July 31, 2017. FTC attorneys will be aggressively tracking down Omics International assets in the U.S.
The proliferation of small predatory publishers staying just below the FTC radar means the problem will persist as long as authors and researchers seek them out to further their careers.

**Evil partner: predatory conferences**

Predatory conferences go hand-in-hand with predatory publishers. A journal accepts a researcher’s paper for publication, and often the natural follow-up is that the researcher will present the paper at a conference. However, researchers and academics still have to fiercely compete for the few speaking slots at prestigious conferences.

Predatory conferences now outnumber legitimate conferences organized by bonafide scholarly associations and societies. The problem is especially pressing for the physical sciences, though all fields are battling the influence of predatory conferences, most of which are held in Europe, Asia and Africa.

**A predatory conference looks like this**

The World Academy of Science, Engineering, and Technology (WASET) sponsored the “19\(^{th}\) International Conference on Political Psychology” in September 2017 in Copenhagen. The event was promoted as an “interdisciplinary platform for researchers, practitioners, and educators” in that field. Yet, the “conference” lasted only two hours on Day 1 and one hour on the morning of Day 2.

The venue was a small room with 10 attendees listening to presenters address robotics, solar energy, Islamic finance and
food safety. Apparently, WASET booked multiple “conferences” on the same days for the same small room.

WASET claims 153 accepted submissions in 2017. With conference registration fees of 450 euros ($441) each, that’s 68,850 euros ($69,237) in revenue with minimal expenses. Add in airfare and two nights’ accommodations, attendees lost more than the registration fee. Incredibly, WASET conferences are booked through 2030.

Another favorite target of predatory conference promoters are members of the National Speakers Association (NSA) — many of whom command high five-figure speaking fees for conference keynote addresses. Here’s what some of my NSA colleagues had to say about what they experienced when shady conference promoters approached them.

Laurie Guest, CSP, was contacted to be a keynoter for a large conference in the dental world. It all sounded legit until she studied the website and discovered it contained photos of people taken from other sites. But, unfortunately, by that time the conference site also contained real photos of Guest. So, when angry registrants wanted reimbursement of the $999 fees for a conference that never happened, the only person they could contact was Guest. “… (I)t wasn’t good,” Laurie says. “Now [for conferences I speak at], I do not provide my photo and program description until I have received a deposit for my fee.”

Guest’s fraudulent encounter isn’t rare. The phony Mansour Bin Zayed Al Nahyan Foundation, ostensibly sponsored by The United Arab Emirates government, approached both
Chris Widener and Marilyn Sherman, CSP, CPAE, with the same scam. For Widener, the foundation promoters were going to pay $50,000 for the keynote, $10,000 for wardrobe, a 20% agency fee and $1,000 a day per diem. The contract also included first-class airfare for him and six companions. The foundation was going to pay Widener a hefty sum upfront, but then it wanted him to give back a portion as a donation to its charitable trust before he could deposit the check.

Widener and Sherman both realized that obliging the “foundation” would’ve cleaned out their bank accounts. The scammers also tried to fool Dog the Bounty Hunter with this latest version of the “Nigerian Prince” scam.

**Be a discerning professional**

Part of building an epic leadership brand and becoming an influencer and thought leader requires sharing knowledge, wisdom and experience with audiences in a variety of channels. Whether you work in academia, or the public or private sectors, your reputation shines brightest and becomes a beacon of professional integrity for others when you make deliberate, ethical choices about the journals in which you choose to publish and the venues at which you choose to speak.

**TOOLS FOR EVALUATING SCHOLARLY JOURNALS AND CONFERENCES**

How to ascertain if a journal is a predatory publisher

- Determine if publishing costs and fees aren’t openly disclosed or easy to locate, the peer-review process isn’t clearly explained or doesn’t conform to discipline
standards, and the publisher or journal’s name is suspiciously similar to other well-known publications.

- Refer to Iowa State University Library’s Data Service Technician Megan O’Donnell’s 13-item checklist at tinyurl.com/y65swuq6.

- Visit the Retraction Watch website that archives scholarly article retractions and occasionally exposes ethical violations and suspicious activity in the process.

- Read the Open Access Scholarly Publishers Association code of conduct and refer to related links to understand legitimate OAP publishing. (For more information, see tinyurl.com/yyf25pba.)

- Also refer to “Beall’s List.” Librarian Jeffrey Beall’s list catalogs potentially “predatory open-access publishers,” a term he coined. Naturally, OAP proponents object to Beall’s sweeping list. Their legal threats to him forced the University of Colorado website to remove the list, but it exists on several other sites.

**How to determine if you’ve been contacted by a predatory conference promoter**

Organizers often host predatory conferences in exotic locations to distract from their low scholastic value. But the fraudsters will schedule talks in hotel meeting rooms (not in convention centers or arenas) that might hold 10 to 20 people.
See “What are ‘predatory’ conferences and how I can avoid them?” by Andy Nobles on the AUTHORAID website (Feb. 6, 2017, tinyurl.com/y5th82lj). He provides questions in three critical areas: conference subject and scope, conference website and conference organizers. §§§
Donn LeVie Jr.
Cobalt Blues

Fraud, corruption and death in Democratic Republic of Congo cobalt mining

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The battery in your cellphone could be powered by cobalt derived from copper that exploited “artisanal miners” — often children — hand dug from open-pit mines in the Democratic Republic of Congo. But a new DRC government could crack down on the illegal awarding of mine licenses, permits and contracts. And blockchain could make supply chains more transparent.

Eleven-year-old Ziki Swandi was working as an “artisanal miner” (hand-tool excavator) in the Kolwezi/Katanga region of the Democratic Republic of Congo (DRC). He earned about one U.S. dollar per day digging for copper in the abandoned open-pit mines. Ziki’s dream was to quit mining and go to school where he could learn to read and write. At the end of each day, he gave his earnings to his elderly grandmother, who was raising him and three siblings, according to a CBS News report.

UNICEF estimates 40,000 children like Ziki — some as young as seven years old — work with shovels, pickaxes and sacks
before and after school at mostly illegal DRC open-pit copper mines.

Many of them toil up to 12 hours per day alongside their parents and nearly 150,000 other men and women as they eke out a bare existence in the Katanga region of the DRC.

The DRC is the source of 62% of the world’s cobalt supply. Kolwezi, the capital city of Lualaba Province in the south of the DRC, has the world’s richest supply of the ore. Copper is a source of cobalt — an essential element of lithium-ion batteries used in smartphones (five to 10 grams of cobalt per phone), computers (one ounce per computer) and electric vehicles (10 to 20 pounds per vehicle). Forty-two percent of the cobalt supply is earmarked for batteries.

Cobalt boosts energy density and battery life by chemically stabilizing layered battery structures.

**Trillions in mineral wealth beneath abject poverty**

The DRC is the world’s poorest country with a 2019 per-capita GDP of about $475. However, it sits on a mineral wealth of $24 trillion, including three million tons of lithium reserves.

“Conflict” minerals, such as tin, tungsten and tantalum (extracted from cassiterite, coltan and wolframite) are mined in the eastern portion of the DRC where more than 100 various armed factions operate. However, cobalt is mined in the south near the Zambian border (away from armed militia groups) and isn’t categorized as a conflict mineral, though a variety of
humanitarian, ethical and legal issues complicate any clear-cut classification.

**Prevailing conditions for ongoing corruption, fraud and abuse in the DRC**

The DRC has a history of rampant government fraud, supply-chain corruption, bribery, human-rights abuses, child-labor violations, political favors and sectarian violence, all of which contribute to the nation’s label as the seventh most unreliable country to conduct business with.

A former DRC cabinet anti-corruption czar estimated back in 2015 that the country was losing up to $15 billion a year because of fraud while the annual state budget at the time was about $5 billion.

José Ugaz, former chair of Transparency International (TI), said in 2015 that, “Corruption creates and increases poverty and exclusion. While corrupt individuals with political power enjoy a lavish life, millions of Africans are deprived of their basic needs like food, health, education, housing, access to clean water and sanitation.”

Financial misappropriation and massive tax evasion in the DRC have been one of many obstacles to the country’s efforts to raise the standard of living for its citizens. Between 2008 and 2014, the DRC government estimated that mining companies owed it $3.7 billion in unpaid customs duties and fines. Also, the government found 11 mining companies liable for $741 million in unpaid taxes and fines.
As little as 6% of the DRC’s mining exports (as much as $10 billion in 2017) ever reach the national budget, according to an investigation by Global Witness. Unfortunately, the shrinking middle class is left to shoulder the tax burden.

The country, like the rest of the world, has been hit hard by the pandemic. Mines have closed. And many mining operations have discussed mergers and acquisitions (heavily financed by Standard Bank DRC partnering with Industrial and Commercial Bank of China) among the dozens of foreign companies extracting the mineral wealth of the DRC.

To further exacerbate the DRC’s plight, the country recently suffered through its eleventh Ebola outbreak in 40 years in the eastern portion of the country.

Other parasites destroying lives in the DRC

The most popular circulating narrative focuses on corrupt public office holders lavishly spending public funds and living the luxury life while their countrymen are deprived of basic, essential needs and amenities. The U.S. Department of the Treasury cited an independent investigation that found the DRC had lost more than $1.36 billion in potential revenues by underpricing mining assets sold to firms when then-President Joseph Kabila served as the middleman for such dealings.

The outgoing Kabila government in 2019 unveiled “golden parachutes” for former prime ministers who were to receive a monthly salary equivalent to 30% of the current prime minister's, a monthly housing stipend of $5,000 and health care overseas. Former cabinet ministers were to receive monthly
salaries equal to 30% of a current minister’s, a $1,000 monthly housing stipend and one international flight per year in business class.

The 2015 TI report, “Corruption in Africa: 75 million pay bribes,” estimated that 75 million people in Sub-Saharan Africa paid a bribe that year — some to avoid punishment by the police or court-mandated jail time, but most others were coerced into bribing officials just to get access to desperately needed basic services.

**Graft, corruption, fraud and abuse in the DRC mining sector**

Not surprisingly, the root cause of corruption in the mining sector is the absence of transparency and accountability in the awarding of mining sector licenses, permits and contracts, which is the first stage in the mining value chain.

In the DRC, such systemized top-to-bottom corruption and fraud in the private sector and in government has a French name: *débrouillez-vous* or “fend for yourself.”

The March 2018 DRC 2018 Mining Code increased taxes on profits, doubled the government's stake in new mining projects; increased royalty rates for the newly classified strategic minerals cobalt, lithium, germanium and coltan; and paved the way for cancellation of stabilization clauses introduced under the previous 2002 Mining Code that heavily favored mining companies.
Donn LeVie Jr.

Figure 2. Cobalt supply chain process (source: “Child Labor in the DRC: Big Teach and the Automotive Industry’s Cobalt Supply Chain Problem,” by Wali Miller, Sayri, Aug. 25, 2020, tinyurl.com/y6btn78g)

Dominating presence of China in DRC mining and global supply chain

China is a major player in the commercial extraction and refining of cobalt, but it also holds a firm grip on the global supply because all roads to battery-powered consumer products must first go through China. From extraction through electronic consumer products, China is present in every step of the value chain. (See Figure 2). Ninety percent of China’s cobalt supply comes from Kolwezi, which is known in environmental circles rather sadly as “the lungs of Congo.”

Several factors contribute to China’s dominance as a partner in extracting DRC cobalt. Former DRC President Joseph Kabila promoted a modernization initiative, called La Modernité that involved making natural resource extraction available to foreign companies to obtain the necessary financing for the country’s industrialization. Kabila saw that China’s unparalleled rapid modernization embodied what he’d envisioned for the DRC.

Another influential factor was the absence of the ideological motivation that often accompanied demands by Western
countries in exchange for mineral extraction rights. Congress has shaped U.S. policy toward DRC, often focusing on human rights and democracy. China, which has been in the DRC since the late 1960s, negotiated mining contracts with no such socio-political strings attached.

**Death in Kolwezi**

In June 2019, 43 artisanal miners died when an open-pit copper mine collapsed. The mine was operated by Kamoto Copper Company (KCC), a subsidiary of Swiss-based mining giant, Glencore. Artisanal miners use unsafe, outdated practices that can compromise the safety of the mines. Accidents are common. Earlier that year, a truck carrying acid to Glencore’s Mutanda Mine in DRC collided with two other vehicles and killed 20 people.

In June 2020, the Swiss government initiated a criminal inquiry into Glencore over its failure to implement organizational measures to prevent alleged corruption in the DRC where it has copper and cobalt mines. In July 2018, the U.S. Justice Department subpoenaed Glencore over potential Foreign Corrupt Practices Act violations for its operations in Nigeria, Venezuela and the DRC.

**Major tech companies named in DRC child miner deaths**

The human rights group, International Rights Advocates, filed a lawsuit in Washington, D.C., on behalf of 14 families against Alphabet, Apple, Dell, Microsoft and Tesla in December 2019. The lawsuit alleges the technology firms knowingly aided and
abetted — and subsequently benefited from — forced labor practices in the DRC.

However, in a motion to dismiss the lawsuit filed in August 2020, the companies contend that, under definitions contained in the Trafficking Victims Protection Reauthorization Act (TVPRA), “An entire global supply chain is not a ‘venture.’” Furthermore, the five tech companies each claim they’ve established robust due-diligence practices in accordance with guidance from the Organization for Economic Co-operation and Development. They also assert they require their supply-chain associates to comply with codes of conduct as a condition of doing business with them.

The motion added, “Defendants’ policies prohibit certain unlawful labor practices, including the use of child labor, at any tier of the supply chain and require regular supplier audits to evaluate compliance.”

Lawyers for International Rights Advocates have contested the motion to dismiss.

**Unregulated artisanal mining continues**

As long as financial incentives exist, illegal miners probably will continue to poach on industrial mining concessions as the cobalt ore they dig up enters supply chains with no records. As with most things in Africa, the problems are multi-faceted; there’s no easy solution.

Industry and multi-stakeholder initiatives have suggested that mining companies officially assimilate artisanal miners into
industrial supply chains. That approach would give companies greater control over work conditions and safety practices plus diminish the use of child labor. However, most mining companies aren’t likely to favor this option primarily because of the monitoring expense for 60,000 artisanal miners.

But foreign mining companies operating in Africa must address the imbalances and inequalities with which they operate. They need to weigh the costs of monitoring artisanal miners for their safety versus the status quo, which could result in more accidental deaths, forced labor accusations and possible military violence against illegal artisanal miners operating on licensed commercial concessions.

The military chased away artisanal miners from the Kamoto mining concession in June 2019. However, they returned shortly thereafter. The miners had bribed the soldiers guarding the site to let them continue operations.

**New battery alternatives may mean lower cobalt demand**

Lithium-ion battery use has become widespread over the last three decades. However, they’re not always the most efficient solution. For example, these batteries help electric vehicles travel farther but aren’t always long-lived or fully stable. The metal fragments in the batteries can short circuit and possibly cause fires or explosions.

Alternatives to lithium-ion materials, such as zinc, vanadium or sodium, work well for many types of large “capture-now-distribute-later” stationary electricity storage. Utility companies can use these alternative batteries to seize
renewable energy from wind and solar arrays and deliver electricity to consumers hours later. These battery alternatives could also power telecommunications towers and remote industrial sites such as mines.

Low-cost sodium-ion batteries are cheaper over the long term than lithium-ion but, unfortunately, they aren’t suitable for electric vehicles or consumer electronics. However, they can recharge within minutes, and can deliver short bursts of instant power when needed.

Sodium is the sixth-most-abundant element while cobalt is the 32nd. It’s not mined but harvested, which makes it a far more sustainable battery element than cobalt.

Tesla announced in September 2020 that it wouldn’t be using cobalt for battery cathodes. That technology shift would drop the price of the lowest-cost Tesla model by $10,000 to a sticker price of about $25,000, which would be comparable to gas-powered cars.

However, removing cobalt from the battery mix might put pressure on nickel ore, which is mined in more places than cobalt. If that’s the case, would mining companies have the conscientious compulsion to avoid replicating the DRC tragedy in economically depressed countries or regions that might be unfortunate enough to have huge nickel mineral reserves, such as Indonesia and Brazil?

Only time will tell.
Hope for DRC’s future

The expected adoption of the DRC government’s 2019–2023 Strategic Development Plan will give national priorities more visibility. The country’s low debt (13.7% of GDP for external debt and 6.5% for domestic debt in 2018) helps make available new external concessional loans. President Félix Tshisekedi has enacted considerable political and economic reforms in his first two years in office. Anti-corruption campaigns and political realignments are expanding in part to help attract a significant loan from the International Monetary Fund that will help stabilize the economy and finance ongoing corruption reforms. Average inflation in 2020 and 2021 is expected to hover around 5%, which is down from 29.3% in 2018.

Blockchain helping with cobalt provenance, transparency in DRC

The modern strategic-mineral supply chain has become increasingly complex — involving multiple visible and invisible international stakeholders. Improved transparency across the chain is imperative for tracing point-to-point mineral provenance, building trust with suppliers and establishing transparency.

In 2019, Eurasian Resources Group (ERG) piloted a blockchain-based solution at the Group’s Metalkol RTR operation in the DRC. The hydrometallurgical plant has an annual target capacity of 26,455 tons of cobalt. ERG used IBM’s Blockchain Platform to record provenance and movement of cobalt throughout the supply chain. Such cobalt traceability will help
ensure secure transactions along the mine-to-manufacturer value chain.

**Update on Ziki Swandi**

After CBS News aired the story on Ziki Swandi, concerned viewers contacted the network to see how they could help him attend school. Fifty CBS viewers helped make Ziki’s dream of going to school — and those of his three siblings — a reality. Each received school uniforms, book bags and textbooks as students at the Good Shepherd School. The Swandi children had escaped the artisanal mines of Kolwezi.

**TI publishes tool to identify corruption in awarding of mining sector permission**

Transparency International (TI) has published the 120-page, “Mining Awards Corruption Risk Assessment Tool,” to help identify and assess the underlying causes of corrupt awarding of mining sector licenses, permits and contracts.

This flowchart in Figure 3 is an overview of the three phases and nine steps involved in the assessment.
**Figure 3. Three phases and nine steps of the TI Assessment**
(Source: “Mining Awards Corruption Risk Assessment Tool (2nd edition),” tinyurl.com/y23mgs5c, Transparency International)
Donn LeVie Jr.
Residents of C-suites and boardrooms who exhibit the “Icarus complex” often initially soar but ultimately plummet from lofty heights and take their companies with them. Here’s how organizations can identify them in the hiring process and prevent disaster.

In Greek mythology, Daedalus and his son, Icarus, escaped imprisonment on the island of Crete by fashioning wings made of feathers glued together with wax. Daedalus taught Icarus how to fly with the wax wings, but he cautioned his son not to soar too high or the sun would melt them. But Icarus ignored his father’s wise counsel and began flying higher until the wax began melting under the heat of the sun. His wings quickly fell apart, and he plunged into the sea and drowned.

Another literary tragic figure is Captain Ahab in Melville’s “Moby Dick,” who’s consumed with one mission: the white whale. Ahab is a most dangerous kind of leader. His narcissistic carelessness and destructive determination defeat
him as he takes the whaling ship Pequod and her crew (except for Ishmael) down with him — the maritime equivalent of flying too close to the sun.

More than ever before, organizational leadership demands not just accomplished functional skills, experience and knowledge, but also personality and psychological stability. Emotional and influential illiteracy still plague many C-suites and boardrooms as do examples of recklessness, defiance of limitations and personal over-ambition. Executive instability leads to fraud.

Figure 4 illustrates a simple model of destructive leadership behavior and its relationship with subordinates and an organization.

*Figure 4: A model of destructive leadership behavior* (From “The prevalence of destructive leadership behavior,” by Merethe Schanke Assland, et. al., British Journal of Management)
Icarus complex

Harvard psychologist Henry A. Murray coined the term “Icarus complex” to characterize a specific type of hyper-ambitious personality that includes elements of narcissism, ascensionism (love of flying and heights) and extreme imaginary cognitive states. The person with an Icarus complex initially soars but ultimately plummets precipitously from lofty heights.

The Icarus complex shares many traits of personality disorders with “dark psychology.” Individuals who consciously take advantage of others exhibit characteristics known as the “Dark Triad of Personality.” These traits include the tendency to seek admiration and special treatment (narcissism), to be callous and insensitive (psychopathy) and to manipulate others for one’s personal gain (Machiavellianism).

While a modicum of narcissism can be healthy for some charismatic leaders, excesses of dark psychology have given rise to “dark leadership.” Such undiagnosed disorders in corporate leaders can be dangerous to an organization’s financial and emotional health. One 2010 study of the Norwegian workforce found that destructive leadership behavior varied from 33.5% to 61%, which indicates that “destructive leadership is not an anomaly,” according to an article by Merethe Schanke Assland in the British Journal of Management.
Flying too high in the C-suite

C-suite executives harboring Icarus complexes are a hazardous game changer for everyone in an organization, especially when risky decisions or fraudulent actions jeopardize employees’ livelihoods and those with financial stakes. “Our most important corporate regulation,” writes University of Pennsylvania law professor and author, David Skeel, “has always been enacted in the wake of stunning Icarus Effect collapses.”

The media and Hollywood have romanticized the notion of personable and charismatic but ruthless executives running large organizations as in “The Wolf of Wall Street,” “Wall Street” and “Boiler Room.” The congenial outward appearance often masks emotional coldness, exploitation, unethical and manipulative behavior, and grandiose self-importance that wreak havoc on management staff and employees. Such polish, charm and even-keel decisiveness often are mistaken as leadership qualities when they can just be the outward-facing appearance of darker personality traits.

Corporate executives harboring an Icarus complex with other dark tendencies often make decisions in isolation without input from others. Managers and other subordinates quickly realize that the Icarian exec doesn’t value their counsel. They become disengaged as the work environment becomes toxic.

Such a closed-loop approach can have costly corporate implications, says Don Hambrick, Evan Pugh Professor and the Smeal Chaired Professor of Management at the Smeal College of Business at Penn State. “… [N]arcissism in
the executive suite can be expected to have effects on substantive organizational outcomes, potentially including strategic grandiosity and submissive top management teams,” he says.

These often are self-destructive personalities because they ignore their own limitations and other boundaries. They’re flames that burn twice as bright as others but only half as long.

**Case study: Marvell Technology Group**

Congress created the 2002 Sarbanes-Oxley Act to protect investors from corporate accounting fraud by strengthening the accuracy and reliability of financial disclosures. One company with a history of governance and compliance problems is Marvell Technology Group (a former employer of mine for eight years).

The U.S. Securities and Exchange Commission (SEC) fined the company, run by its husband-and-wife co-founders, $10 million for an employee stock-options backdating scheme.

A patent infringement lawsuit with Carnegie Mellon cost the company $750 million. The SEC also fined Marvell $5.5 million for running an undisclosed revenue management scheme.

NASDAQ threatened the company with delisting for non-compliant report filing.

In April 2016, the Marvell board dismissed the co-founders. Marvell stock soared 14 percent in pre-market trading the day after the announcement of the co-founders’ departure from the company.
Marvell leaders, who resorted to — or were willfully blind to — problematic accounting and regulatory practices caused turbulent times at the expense of shareholders. The company laid off hundreds of employees and closed several technology design centers between 2012 and 2016 to preserve and redirect capital.

This was unfortunate because both billionaire founders were smart, prominent and respected businesspeople in the Santa Clara high-tech community. They were widely recognized for their local and global philanthropic causes. But this type of public persona is the narcissist’s mask.

**Narcissists and behavior rationalizations**

If a situation deteriorates, narcissists will likely try to explain how everything is working exactly as intended. In fact, they often rationalize their own questionable behavior if the means serve the ends. Marvell’s leaders used these types of classic rationalizations to pass off its corporate behaviors and actions: “slippery slope” (options backdating: “everyone’s doing it”), “king’s pass” (public achievements and philanthropy should overshadow the ethical errors in judgment), and “Hamm’s excuse” (patent infringement and revenue mismanagement: “it wasn’t my fault”).

In an interview with *Fraud Magazine*, David Cotton, CFE, CPA, chairman of Cotton & Company, tells how some in the C-suite succumb to the power of position. “[It’s a ] given that pretty much everyone wants more money,” Cotton says. “And executives with ‘chief’ in their job titles are almost always in a position to override or circumvent internal accounting and
fraud controls. So, pretty much every senior executive inherently already has two legs of the Fraud Triangle.” Cotton was chair of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Fraud Risk Management Task Force and one of the principal authors of the COSO/ACFE Fraud Risk Management Guide.

Replacing the hostile environment in 2016 probably was the best change for the company when Marvell’s C-suite executives were rationalizing repeated compliance dodges and questionable ethics. No longer would C-suiters regularly fire executives for expressing differing opinions from one of the founders. Gone were the founders’ hand-picked directors — “yes men” — whose autocratic leadership style forced the departure of talented professionals.

One reporter opined an all-too-familiar refrain: “And Silicon Valley has once again been reminded that placing people on a pedestal too high can make their fall even more painful to watch.”

**Warning signs are there if you know what to look for**

Evidence of fraud or improper reporting goes beyond the entries on a spreadsheet. When auditors and fraud investigators are taught what to look for, they can be well-positioned to identify the signs of the Icarus complex (excessive risk, over-confident demeanor), and its attendant narcissistic behaviors (exaggerated sense of self-importance, need for admiration, lack of empathy) in the C-suite.
A savvy auditor or fraud investigator can observe odd personality displays that might influence risk assessment and set off audit risk alarms. One study found a potential relationship between organizations led by a narcissistic CEO and higher audit fees, which were the result of additional audit work required and/or charging higher risk premiums. There might also be some connection between narcissistic CEOs and weak internal controls.

Here are some other indications, when taken together, which suggest that closer audit or investigative scrutiny might be in order.

- Narcissistic CEOs are inclined to speak and write using the first person singular (“I” and “me”) versus third person plural (“us” and “we”).
- Narcissistic CEOs are often pictured alone or positioned more prominently in group photos.
- Narcissistic CEOs tend to have lengthy and stylish signatures (conveying and signifying their self-importance).

The Narcissistic Personality Inventory, known as the NPI-16 (a concise version of the 40-item NPI-40), could be offered as a proactive tool during pre-audit planning discussions with key corporate executives. You can download the NPI-16 at tinyurl.com/yb49xb7m.

**What about after-hours CEO lifestyles and behavior?**

It’s not just on-the-job actions and decisions that should trouble boards and stakeholders when they look at CEO behaviors.
Several studies suggest leaders’ lifestyles and off-the-clock activities correlate with actions back at the office.

**INSIDER TRADING**

One study identified companies that simultaneously hired at least one executive with a criminal record (misdemeanors, felonies) and one without a record between 1986-2017. Researchers examined trades of company stock and found that executives with a prior record made more on those trades than those executives without a record. The difference was greatest among executives with multiple offenses and more serious violations, which implied that privileged information was used.

Despite their organizations’ “blackout” policies to deter improper trading, executives with the more serious past offenses were the worst policy violators and were more likely to miss SEC reporting deadlines.

While governance policies can instruct executives with minor offenses (traffic violations, for example), they appear ineffective for those with more serious infractions (legal judgments, restraining orders). Part of the problem lies with boards performing only superficial due diligence as reflected in comments to researchers, such as, “I don’t care what they did, especially if it was a long time ago.” The executive who oversteps legislative controls, corporate policies and ethical boundaries — and who engages in risky behavior — is soaring too high with feathered wings.
FRAUDULENT FINANCIAL STATEMENTS

Another study identified 109 companies that had submitted fraudulent financial statements to the SEC. When compared to CEOs of companies with no statement infractions, 20.2% of the leaders in the fraudulent reporting group had records compared to just 4.6% of the other group.

EXECUTIVE MATERIALISM AND REPORTING RISK

Researchers used property and tax records to determine personal consumption habits (expensive cars, boats, homes) of CEOs. They found a correlation with lavish/extreme lifestyles and careless operations when reporting errors and financial misstatements were widespread. The effect was enhanced during C-suite changes associated with increased fraud risk, such as appointing avaricious CFOs, increasing equity-based incentives to misreport and lax board monitoring.

TENDENCY FOR RISK TAKING

A study of materialistic banking CEOs found they more readily embrace risky practices for their institutions, such as higher outstanding loans, more non-interest income and dicey mortgage-backed securities as components of total assets.

Such bank CEOs also had less stringent risk management practices, which suggests a tendency to operate their institutions under very flexible policies and procedures. Non-CEO executives in banks with materialistic CEOs traded on insider information more aggressively around government bailouts during the 2008 financial crisis.
CORPORATE SOCIAL RESPONSIBILITY

Companies led by materialistic CEOs have lower corporate social responsibility (CSR) scores. While there’s no correlation to profitability in such companies, there’s a corresponding decrease in CEO influence when CSR scores are low. There’s also an inverse relationship between a CEO’s materialism and CSR scores. In other words, as a CEO’s materialism increases that associated CSR score decreases. CSR scores in firms with non-materialistic CEOs are positively associated with accounting profitability.

It’s unrealistic to believe that legislative controls and corporate policy will have a deterrent effect for all employees because these studies reveal how different individuals have varying degrees of risk tolerance and relative levels of compliance to rules, ethics and governance.

How can boards better vet external CEO candidates?

The No. 1 pitfall for boards that threaten a company’s success is selecting the right CEO. Boards can help limit their exposure to external (and potentially problematic) CEO candidates by looking for previous patterns of questionable behavior during the candidate’s tenure in similar positions and those leading up to it. Third-party entities that specialize in full legal background investigations, which require the candidate’s consent, are best equipped to conduct the inquiries.

Most boards are concerned about extravagant spending by their CEOs while on the job. However, as the previous studies reveal, boards’ failure to check off-the-clock behaviors and
ignore red flags associated with dark-personality disorders could spell disaster.

**Willful blindness plays a role - in some cases**

We turn a blind eye to truths, situations and facts every day. We create a false sense of “blissful ignorance” when we try to avoid blame, pain or accountability. Whenever contradictory evidence confronts our beliefs, the “backfire effect” further entrenches them. (See “The backfire effect,” by Dave McRaney, tinyurl.com/jtcdda3.) Our brains prefer the path of least resistance when we stick to our beliefs in “uninformed obedience” — instead of applying critical thinking to people and situations.

Board members should know how willful blindness has a strong connection with avoiding unpleasantries and pleasing others. They must enter the CEO vetting process with a stronger level of due diligence and deeper self-awareness that allows them to not succumb to the influence of a powerful personality.

Some narcissistic CEOs might never have read Greek tragedies or Melville, or perhaps they failed to learn the lesson from the narratives. Others might have been willfully blind to events in their organizations. However, David Cotton believes there’s another reason: “Sociopaths and psychopaths do not need two of the three legs of the Fraud Triangle … they just need one: opportunity.” Relating the fate of Icarus in 21st-century parlance, such individuals might have soared skyward initially, but eventually they all flew their company jets too close to the sun. §§§
Like a Virgin (Olive Oil) but Not Quite

Fraud and counterfeiting in the olive oil industry

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You’re in the grocery store, and you’re pleased with yourself. You’ve just chosen a beautiful bottle of extra-virgin olive oil labeled with a picture of verdant Italian olive groves. Unfortunately, the liquid in that bottle also contains soybean, corn, sunflower, cotton, hazelnut, peanut and palm oils. Olive oil fraud is rampant. Here’s how the oily criminals commit their crimes and how to prevent them.

When 62-year-old Luciano Sclafani, a Sicilian food importer, visited his local grocery store in Connecticut, what he saw on the shelves stopped him in his tracks. Next to a one-liter bottle of his company’s brand of extra virgin olive oil (EVOO), which sold for $25, was a competitor’s three-liter container selling for $9.99.

Sclafani suspected something wasn’t right, so he contacted the Connecticut Department of Consumer Protection. Food inspectors from the department discovered through laboratory testing that the competitor’s olive oil product also contained
additional oils: peanut, soy and hazelnut, according to a National Public Radio story.

In 2007, U.S. Food and Drug Administration investigators and U.S. marshals confiscated more than 10,000 cases of olive oil in New York and New Jersey storage facilities. Analysis revealed that the bottles labeled as “extra virgin olive oil” contained mostly soybean and low-grade olive-pomace oil. The estimated value of the seized products was more than $700,000, according to the NPR story.

Not only are consumers duped into paying for a low-quality counterfeit product, but they also might be at risk for allergic reactions to the undisclosed types of nuts used to adulterate the olive oil.

Source of wealth and health

Odysseus transformed into a Greek god by covering his body in olive oil. Egyptian pharaohs presented olive oil offerings to the sun god, Ra. Romans and Greeks amassed huge fortunes trading in olive oil, according to the Ancient History Encyclopedia. The Bible contains dozens of references to olive oil. Olive oil seems to be an important socio-cultural thread spun into a fabric that helps tell the story of human history across time.

The powerful anti-oxidant and anti-inflammatory properties of true EVOO have been known for centuries to act as a balm against degenerative diseases. Olive oil, in its many virginities, purportedly lowers cholesterol; decreases risk of heart disease, high blood pressure and stroke; and smooths complexions,
according to the California Olive Ranch. Counterfeit EVOO does none of these things.

Olive oil deception is a crime fraudsters commit against growers, consumers and even public well-being. As far back as 2400 BC, inspectors routinely visited olive growers and millers for evidence of deceptive practices.

The Romans stamped inscriptions on olive-oil filled amphora (tall clay jars with two handles and neck) that provided a complete record of the contents — from the locality where the olive oil was produced and producer name to the weight and quality of the oil when the amphora was sealed and the importing merchant’s name. The Roman bureaucratic system ensured that middlemen in the long supply chain weren’t doing their own olive oil “extraction” as the amphorae journeyed to storage warehouses in Rome from Spain and Africa.

**Food fraud a growing global concern**

The two primary forms of food fraud involve the sale of food that’s unfit for human consumption or adulterated in some fashion and the deliberate false description or labeling of food. From adulterated raw materials to counterfeit labeling, food fraud costs consumers billions of dollars each year — and even deaths in some cases.

In 2008, several Chinese companies were adulterating milk supplies with a chemical called melamine because it artificially increased the apparent protein content. Melamine-adulterated milk was used in the manufacture of infant formula, which led
to the hospitalization of 54,000 Chinese infants and the deaths of at least six. The World Health Organization classified it as one of the largest food safety incidents in its history. Two executives from complicit companies were executed, three were given life prison sentences and seven local government officials were fired or forced to resign.

Olive oil tops in food fraud schemes

The International Olive Council has created legal definitions for “virgin,” “extra virgin,” and “olive-pomace” oils, and those guidelines help in determining when olive oil products have been tainted.

Olive oil, which has the honor of being the most expensive edible oil, is among the most frequently adulterated food products with such additive oils as soybean, corn, sunflower, cotton, hazelnut, peanut, palm and many others. To mimic the fragrance of a first-press EVOO, sometimes drops of chlorophyll and beta-carotene are added to the bogus mixture. In 1981, more than 1200 people died (600 in Spain alone) after ingesting industrial grade oil adulterated with chemicals that was sold as olive oil by an itinerant salesman. The condition became known as “Toxic Oil Syndrome” according to the National Center of Biotechnology Information.

Greater competition → higher prices → and lack of controls = opportunity for fraud

Europe accounts for 70 percent of the world’s olive oil production. Spain is the largest producer (followed by Italy and Greece) with more than 300 million olive trees covering an

According to the paper, non-EU countries, such as Tunisia, Syria, Morocco and Algeria are intensifying competitiveness by increasing domestic olive oil production. The high price of olive oil; the distinctive fragrance, taste, and texture characteristics; and its reputation as a healthy source of dietary fats make olive oil a target for adulteration or deliberate mislabeling of less expensive classes of olive oil but selling at premium prices.

Add to this mix increased global competitiveness, expanding markets, an absence of standardized and synchronized detection methods for identifying olive oil fraud, and significant weaknesses in supplier/distribution chains arise, which counterfeiters are ready to exploit.

Therefore, olive oil adulteration for financial gain has become one of the biggest sources of EU agricultural fraud. European researchers suggest that “common cultural, market, industry, and organizational features, practices and structures providing opportunities for fraud … are also evident at a higher level of generality within other food markets and systems,” according to the research paper, “The Dynamics of Food Fraud,” by Nicholas Lord, Cecilia Juliana Flores Elizondo and Jon Spencer.
Food fraud and organized crime

Olive oil fraud is big business to the Italian “Agromafia” (the Mafia is diversifying into food fraud) to the tune of $16 billion annually, and nearly 80 percent of EVOO found in American supermarkets is likely to be adulterated with cheaper olive oil as well as sunflower, soybean and other vegetable oils, according to a January 2016 “60 Minutes” story.

Recent fines handed down by Italian anti-trust regulators for tainted EVOO have exceeded $600,000 (550,000 euros) against the company, Deoleo, which owns the Bertolli, Sasso and Carapelli olive oil brands, according to the June 23, 2016, Olive Oil Times article, “Italian Antitrust Authority Fines, Lidl, Deoleo and Coricelli for Misleading Consumers. Lidl was fined $330,000 (300,000 euros) for improper labeling of its Primadonna brand olive oil.

Even “Food Network” star Rachel Ray was fooled into promoting fraudulent EVOO branded with her name on the bottles, according to a University of California-Davis Olive Center report.

The fraud extends across the EU when criminal enterprises also receive substantial subsidies to support the olive oil industry. Author Tom Mueller writes in Extra Virginity: The Sublime and Scandalous World of Olive Oil (W.W. Norton & Co., 2012), that 95 percent of detected misappropriations of EU agricultural subsidies in 2007 occurred in Italy, with the majority in the olive oil sector.
Mueller writes of unethical though “legal fraud” allowed under Italian and EU law in which product labels either fail to identify all ingredients or intentionally mislabel the country of origin. He writes that Spanish olive oil might be bottled in Italy, but store shelves are lined with bottles of olive oil varieties adorned with colorful labels showing the Italian flag or the Leaning Tower of Pisa — and stamped as a “Product of Italy.”

Many of the actors, criminal enterprises and companies complicit in olive oil fraud are well known to Italian and EU investigators. However, many of them are immune from prosecution because of strong political connections, rampant bribery, non-comprehensive controls and/or insufficient enforcement, and a weak political will to confront olive oil fraud — all at the expense of consumers, according to “The Internationalisation of Corruption: Scale.

**Organized crime doesn’t commit all food fraud**

The popular press emphasizes the transnational criminal element inserting itself into food networks in general — and the olive oil market specifically. However, outside of the major olive oil-producing/exporting EU countries, olive oil fraud (and other similar scams) is much better understood as an internal phenomenon within the food system in which legitimate workers and organizations become involved.

Criminal opportunities arise under specific conditions (pressure, opportunity, and rationalization = the Fraud Triangle) as part of employee or organizational daily operations.
For example, abruptly changing market conditions might pressurize a business to unload product inventory surpluses through intermediaries in an already saturated market. Any place in the supply or distribution chain that undergoes a process or price constriction because of external influences might lead to “slippery slope” fraud.

Sociologist Edward Gross termed facets of this phenomenon the “criminogenic nature of organizations,” in which organizations – without intention – tempt fraud to achieve financial targets. Such an instance of unpremeditated deception soon spirals out of control and creates aftershocks that eventually propagate upstream to business headquarters, which results in brand or reputation damage, shareholder anger, corporate bankruptcy or criminal prosecution, Gross writes.

**Weak links in supply/distribution chains**

At some point within the supply or distribution chain and other intermediaries, food fraud often reveals a related vulnerable financial weak link upon which fraud investigators can capitalize.

In a recent interview Dr. John Spink, director of the Food Fraud Initiative at Michigan State University, shared with me about food companies’ vulnerabilities. He said that these organizations should take a proactive approach that “reviews how [it] assesses their own vulnerabilities. A different process and method reviews incidents or food fraud vulnerability assessments. We consider the details of current known incidents [and] then examine where a company has
vulnerability, and to achieve prevention we try to reduce the vulnerabilities.”

Some of those vulnerabilities, Spink said, might manifest as convoluted supply chains or distribution channels, complex or irregular vendor payment schedules or charges, and other insufficient internal controls.

**Fraud under the radar: altering ‘best before dates’**

Here’s an example in which “best before dates” (BBD) at far downstream distribution points can be both weak links and beacons to fraud examiners.

Olive oil, unlike wine, doesn’t improve with age, according to the North American Olive Oil Association. In some EU countries, olive oil freshness is stated as “time of minimum durability” (TMD) — a minimum time within which the olive oil maintains its organoleptic properties (how olive oil characteristics stimulate the sense organs) as stated on the label.

Under proper storage conditions, regular olive oil can be stored up to two years, but once opened should be consumed in two to three months. Most olive oil containers on store shelves don’t list a “harvest date” (when the olives were picked) because the oil of some olives can remain fresh longer than others. However, they might have BBD dates, which are determined by producers and bottlers as to how long olive oil freshness can be maintained under proper storage conditions. (Adulterated olive oils can be harmful long before an expiration date.) Unfortunately, no laws or best practices prevent bottling
an oil a year after its production and placing a TMD of 18 months from that date.

Enter the broker

Consumer commodities with widespread distribution (such as olive oil) often rely on brokers who help facilitate product, information and financial transactions among businesses in ready-made markets. In the bulk olive oil realm, brokers usually arrange to sell only full containers (sometimes as large as ocean-going tankers), because they’re most commonly importing from overseas.

Brokers often dispose of overstock consignments to wholesale companies, which take the large volumes at discount. The wholesaler subdivides the consignment into smaller “chunks” for another discounted sale to distributors. They, in turn, break down those quantities into smaller units to sell (at yet another discount) to small grocery store chains with the share of profit shrinking at each level.

Once a product passes through various brokers and intermediaries, contractual controls to protect the product brand at the top of the distribution chain might not be in place at the distal end. Without some type of contractual or regulatory brand protections that ensure transparency as the product moves further downstream, the integrity of the product BBD increasingly becomes at risk for fraud.
Profit compression and BBD fraud

At the farthest ends of the distribution chain the profit point is highly compressed because the product volume is no longer present. As the profit becomes more elusive for these end-point buyers, some turn to altering the individual bottle BBDs so they can retain more product. The product then transitions from residual discounted stock to prime stock and commands a higher price.

Fraudulent companies work hard to alter BBDs. The operation requires an off-site location, chemicals to remove original BBDs from bottles or packaging, and expensive equipment and ink to print new dates on caps or bottles. The bottles also require repackaging to mimic the original packaging. Such operations are too expensive for the occasional bottle tampering fraud, so they are, in fact, a common, frequent, entrenched and overlooked practice in many similar EU food fraud operations.

Detecting fraudulent EVOO: lab results add to evidence file

Companies no longer have to use possibly inconclusive simple kitchen tests to detect counterfeit EVOO; they now can use laboratory biochemical and DNA analysis. A sophisticated elemental and molecular technique such as Low Field Nuclear Magnetic Resonance provide a rapid and reliable method for screening olive oil authenticity directly in the sealed bottles. This test shows promise as a quality control tool in the production chain and by dealers and consumers in distribution centers and grocery stores.
Another laboratory technique, UV-Vis spectrophotometry, provides an accurate, fast, and inexpensive way to test for EVOO adulteration. The test involves analyzing EVOO at certain ultraviolet wavelengths to determine the presence of sunflower, corn and soybean oil additives in the mixture.

Post-factum detection methods are useful for identifying tainted olive oil and similar food products. Such supportive empirical evidence can serve as another arrow in the quiver of the fraud examiner who suspects the presence of financial transgressions in related transactions.

**Prevention is key to stem food fraud**

The 2011 FDA Food Safety Modernization Act (FSMA) requires foreign and domestic food facilities to create and implement food safety plans. Each U.S. importer must develop a Foreign Supplier Verification Program (FSVP) to validate implementation. The first compliance date was May 30.

The report suggests the first step in assessing supply/distribution chains is to define the players, their processes and how they document those processes. While obtaining data and conducting onsite audits/inspections in global geographies can be a problem, initial participation by adopters of the FSVP rule report that technology has helped with collecting supplier data and mapping and continually managing the supply chain.

An old saying in the supply/distribution profession warns that we can only see inflection points (in business, a point in time where a significant change in a process occurs) in the rear-view
mirror. It’s never easy to predict when downstream inflection points are likely to occur and why they might invite criminogenic behavior.

Again, Dr. John Spink, director of the Food Fraud Initiative at Michigan State University, believes prevention is the best medicine.

“Overall, the focus should be on prevention. Only after identifying and understanding the fraud opportunity can we logically select any countermeasure or control system. The focus should be on all types of fraud, not just adulterant substances … and the first step should not be to just start testing product.”

Caveat emptor.

Without explicit legally binding warranties in place (such as “money-back guaranteed if not satisfied”), buyers enter into relationships with sellers in a condition known as “information asymmetry”: When the seller has more knowledge than the buyer about a product, the buyer should embrace the old Roman advice, caveat emptor (let the buyer beware).

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For an olive oil to be classified as “extra virgin,” it must meet a series of chemical requirements and be able to pass a panel test that demonstrates it possesses some detectable level of olive fruitiness and is free of the 16 taste flaws as identified by the European Union and the International Olive Commission. §§§
Diamond fraudsters dupe consumers of all types, including savvy investors and collectors. The global diamond trade, like many other collectable markets, is at the mercy of the absence of transparency. Buyers must cautiously scrutinize gemstones and other low-utility/high-value objects. Here are practical ways for fraud examiners to avoid rip-offs.

Thanks to a brilliant 1940s marketing campaign by diamond conglomerate De Beers, buying a diamond engagement ring has become the symbol of love betrothed. Maybe you know something about the “4 C’s” of diamond shopping (clarity, cut, color and carat) so you can carry on a conversation with salespeople at the jewelry counter. Maybe you saw the Leonardo DiCaprio movie, “Blood Diamond,” and you want to purchase a “conflict-free” stone. But what if you’re asked about shape and symmetry? Do you know about inclusion density and brilliance grades and how carat weight affects these parameters?

As your eyes glaze over, you realize you’re in over your head when it comes to such a large investment. There’s a lot to
consider when buying diamonds (a $73 billion-a-year industry, according to the World Diamond Council — not to mention how easy it is to be duped into purchasing an inferior stone, or a “cultured” (or lab-grown) diamond or worse: glass (especially if you shop for diamonds online from sketchy diamond houses). You worry about investing that “two months’ salary,” as the ads suggest, into something you just don’t know enough about.

And fraudsters in the global diamond trade want to keep it that way. It’s not just gemstone-quality diamonds that are subject to fraud. In 2004, De Beers was charged with colluding with General Electric to fix the price of industrial diamonds, which are used in a variety of applications. In the settlement, De Beers pleaded guilty and paid a $10 million fine to the U.S. Department of Justice. General Electric was acquitted of all charges.

The global diamond market faces many methods of large-scale fraud before the stones ever reach jewelry cases. This article briefly looks at three major types: conflict diamonds, diamond grading certificate fraud and color-enhanced diamond fraud. Also, I cover practical tips for fraud examiners to avoid diamond scams.

**Artificial market shortage of diamonds**

Prior to 1870, diamonds were rare, but that year the industry turned upside down with the discovery of vast amounts of diamonds in South African mines. European financiers soon realized that the diamond market would be saturated without implementing intervention strategies. By 1888, the Belgium-
based De Beers Company controlled all diamond mining in South Africa. In the ’30s, it created a global wholesaler network with De Beers Consolidated Mines Inc.

De Beers captured the world’s diamond supply, but now it had to create the demand for diamonds worldwide. All it needed was a great narrative and marketing strategy, and a smart advertising agency, which they found in Philadelphia with N.W. Ayer in 1938. Europe at this time was concerned with the political instabilities that presaged the start of World War II, and De Beers saw the best potential for creating a demand for diamonds in the U.S.

Diamond inventory had declined by 50 percent after World War I, and people were just emerging from the Great Depression in the mid- to late-’30s. Diamonds were an extravagance for the wealthy; working Americans spent disposable income on bare essentials.

Celebrities often appeared in De Beers advertising to push the image of emotional value — joy, excitement, status — behind diamond jewelry at all price points without overtly selling diamonds. De Beers created a 55 percent increase in U.S. demand for diamonds between 1938 and 1941.

The “Diamonds are Forever” campaign began, which appeals to consumer emotions, social acceptance and status attached to love and marriage. Soon the “two months’ salary” investment for a diamond engagement ring (a completely arbitrary figure) became the standard investment guideline, according to Kolowich. That campaign endured for more than 70 years, and
Donn LeVie Jr.

echoes of it still reverberate today in jewelry stores everywhere.

Truth about conflict-free diamonds

The United Nations defines “conflict diamonds” as those “…that originate from areas controlled by forces or factions opposed to legitimate and internationally recognized governments.” For example, a country in an African conflict area that’s embroiled in civil or religious fighting, ethnic cleansing, forced tribal relocations or genocide might contain rebels or terrorists who trade their mined conflict stones to a more-stable African state in exchange for weapons.

A more-stable African state — the Republic of Congo, for example — can then export those stones as “conflict-free” diamonds even if there was no history of diamonds being mined in that country. In 1998, the U.N. banned Sierra Leone from exporting diamonds because it traded illegal diamonds in exchange for weapons with neighboring Liberia.

Some diamond companies provide chain-of-custody certifications that state they’ve tracked and documented diamonds from the ground to cutting labs and they’re conflict-free in origin. However, some believe it’s impossible for companies with only paperwork to certify with 100 percent certainty that diamonds are sourced from conflict-free areas.

The diamond industry recognizes that some unethically sourced diamonds (termed “mixage”) become a small part of the legitimate supply. Without stricter enforcement by the
diamond trade itself, legitimate companies that buy and sell diamonds consider this mixage as the cost of doing business.

Another big problem lies with the number of contractors and intermediaries between the “rough” — the uncut stone sourced from South Africa, for example — and the “cut” — cut and sized for final finish, often in processing facilities in India, Israel or Belgium.

Paperwork must accompany all shipments at every transfer point plus many “assurances” along the line that the shipment doesn’t contain conflict diamonds. However, some believe the process is overweight in paper and promises, and ultra-light on oversight via industry regulations and inspections thus making for fertile ground for all types of fraudulent transactions.

When a rough leaves a mine, a wholesaler buys it and affixes a “Kimberley Process Certification Scheme” (KPCS) certificate on it before it sends it to a cutting center for processing. The wholesaler must take out a bond that attests to the legitimacy of the stone’s source from KPCS member states in the shipment, according to Clark in the TNW article. Clark writes that Global Witness, an anti-corruption NGO, outlined the 2003 KPCS process, and the U.N. enacted it.

Once the cutting center receives the legitimate KPCS-certified stones, they convert the rough into hundreds or thousands of cut, faceted and polished gemstones that one day end up in expensive jewelry. Yet, it’s virtually impossible to ensure the finished cut stones have direct provenance to the KPCS-certified wholesale shipment. Many of the accompanying
“certifications of provenance” are worth their weight in paper only.

According to Global Witness, loopholes in the Kimberly Process “and the failure to effectively adapt to address a broader range of human rights concerns means that diamonds associated with abuses are still contaminating global markets.” Global Witness said that “persistent and unresolved concerns” about certification of stones led the group to resign as an official observer of the Kimberly Process in 2011.

India has more diamond cutters than any other country, which creates fierce competition among other cutters and an environment that eases the path of conflict diamonds as they enter the legitimate export supply from cutting centers. In their travels from dirt to display case, some diamonds might have been bought and sold as many as 30 times with or without legitimate accompanying certifications, which increases the opportunity for fraud with each exchange, according to Clark.

Anti-fraud professionals look for suspicious “kinks in the links” in inflection (or turning) points where significant changes can occur throughout the distribution chain.

Until the diamond industry takes the problem of conflict stones seriously, some believe diamond purchasers have two available options: 1) Purchase stones that have been laser-etched with certification numbers to ensure the stones are sourced from conflict-free states or countries or 2) opt for synthetic, lab-created diamonds that are practically identical to the natural stones and inform purchasers of the origins.
Certification fraud: Gemological Institute of America grading reports

The Gemological Institute of America (GIA) is one of several organizations that grade and measure physical parameters of a variety of gemstones, including diamonds. Customers submit diamonds for grading, and the resulting GIA Diamond Grading Report provides a full assessment of the 4Cs with a plotted clarity diagram and other features (see Figure 5.) Diamond companies use GIA grading reports to certify properties that add to gemstone quality.

Figure 5: Sample of a Gemological Institute of America grading report.
A representative from Signet Jewelers, the world’s largest retailer of diamond jewelry, told *Fraud Magazine* about the value of grading certificates. “Most consumers purchasing either large or small carat-weight diamonds want a certified stone, and some don’t care, depending on the jewelry piece or the price, so it’s a mix of both,” the Signet Jewelers’ rep says.

In 2015, the GIA was forced to invalidate more than 1,000 diamond grading reports from one of its labs in India. An unauthorized party had access to the grading parameters and doctored grading reports to make inferior stones appear more valuable. Fortunately, the GIA was alerted to the tampered reports through its internal controls.

In a 2016 fraud involving GIA Grading Reports, Alibaba — the online wholesale portal — blacklisted and removed a New Delhi-based supplier of synthetic diamonds and simulated gems for trying to pass off lab-grown synthetic diamonds with fraudulent GIA natural-diamond certificates. International Trading Corporation had offered, via Alibaba, to supply buyers 10,000 carats at wholesale — at $100 or more per carat — of synthetic chemical vapor deposition diamonds a week with fake individual GIA certificates.

The International Diamond Exchange, an online international diamond trading platform, exposed the attempted fraud.

**Coloration fraud: chemically enhanced diamonds**

Fraudsters increase the wealth of diamonds prior to the grading process by applying extremely thin chemical coatings — often only visible at 500x magnification — that give them a
whiter appearance and hence higher value. Suspicious grading labs can clean the stones with alcohol or acetone or boil the diamonds with acid to remove the coatings.

Client behavior often signals fraud. For example, a legitimate client would be upset and demand a revaluation if the grading process reveals a color reversal of three to four lower levels. However, a fraudulent client would probably keep quiet.

In one recent incident in Antwerp, Belgium, the International Gemological Institute (IGI) received a large diamond along with several smaller carat-weight stones, all of which appeared to be coated. Several IGI employees recognized the large stone as one that had been analyzed a few months earlier. So, they called in court bailiffs to observe the grading process, which demonstrated that the fraudulent enhancement of just the large diamond would’ve yielded an estimated excessive value of $40,000. The same pre-enhanced stone was four grades lower when the client had evaluated it months earlier.

**Digging into the ‘diamond/water paradox’ or the ‘paradox of value’**

As of press time, the parched city of Cape Town, South Africa, has delayed “Day Zero” at least until 2019 — when it supposedly has to turn off its dwindling water supply because of a multi-year drought and a population explosion since 1994.

In a country that produces one of the most desired gemstones, life-giving water could become more valuable than diamonds. That would be a reversal of the basic economics principle, “diamond/water paradox,” which says that although water is
more useful and plentiful than diamonds, diamonds command a higher price.

Adam Smith, an 18th-century economist, described this principle, also called the “paradox of value,” in “The Wealth of Nations.”

Smith noted that the everyday practical items we use often have little or no value in commerce or other transactions. Items such as plates, cups, buttons and combs (and water) are just a few examples. However, the impractical, rare item is often far more expensive. For example, a bottle of 1787 Chateau-Lafite Rothschild, pesos de ocho (“pieces of eight”) silver coin minted in the early 1600s or a five-carat diamond have far greater market value but very little or no practical value.

Our impulsive desires and overly optimistic assumptions often sway our assessment of potential risks of low-utility/high-value commodities. We can cast aside the discerning mind of an unabashed skeptic.

**PARADOX OF VALUE LEADS TO SCARCITY AND MARGINAL UTILITY**

Scarcity and marginal utility can explain our seemingly irrational purchases. Scarcity is simply the unavailability of a product, skill or service. Marginal utility is how economists measure the personal gain or satisfaction that meets an emotional want or need from using or purchasing an *additional* unit of a good or service.

The more rare and marginally useful an item or service is the higher the happiness factor associated with possessing it and the higher its price tag. For example, *one* afternoon of batting
practice with Baseball Hall of Fame pitcher Nolan Ryan (a rare, marginally useful and expensive service) would be appreciated more than three afternoons of batting practice with him. The emotional want or excitement decreases slightly on the second afternoon and more on the third afternoon, especially if others are invited to participate with you. The experience now isn’t unique.

The “emotional want or need” is the Achilles heel of many ordinary consumers and wealthy investors who answer the siren call for “one of a kind,” marginally useful, expensive collectibles or opportunities. Fraudsters, of course, know this.

If water and diamonds were available in equal quantities, what would happen to their relative value? What if the supply of water could be controlled artificially as De Beers did with diamonds? What would that do to the values of both? Which is the marginally useful item? It’s a paradox.

Let’s add a second variable in the pursuit of and desire to possess rare objects: “information asymmetry” — that’s when the seller has more knowledge than the buyer about a product or service.

Diamond fraudsters take advantage of buyers’ obsession and fragility by applying persuasion psychology and outright market manipulation as DeBeers did. As in most such pursuits, consumers usually are on the wrong side of the information asymmetry equation.

A third variable is “diffusion” — the extent of a seller’s influence in an investor social network that includes direct or
indirect social ties to the seller or investors plus the seller’s extent of influence through advertising/marketing campaigns.

The power of social networks to distribute information is well documented. Charles Ponzi’s scheme duped many Italians living in Boston’s South End as the close-knit ethnic social network spread via word of mouth his promise of extreme rates of return. Investors’ emotional want of such high returns exceeded their due diligence for considering the offer’s validity.

Taken together, the paradox of value, information asymmetry and diffusion suggest an equation I devised that I call a “fraud susceptibility index” (FSI) for those who participate in deals involving “rare” (low-utility/high-value) objects (see Figure 6). It’s an untested theory, but I offer it as a plausible understanding of how victims could succumb to this scam.

Figure 6: _Fraud susceptibility index_ (the lower the score, the lower the susceptibility to fraud).
From the Underworld to the Boardroom: True Tales of Fraud, Corruption, Counterfeiting, and Cons

Here’s an example for a Ponzi scheme: low utility, high value, high emotion for the buyer = 1; information asymmetry (seller knows more than the buyer) = 1; direct and indirect diffusion (rapid spread by word-of-mouth brings in additional buyers/investors) = 1. Therefore, the Fraud Susceptibility Index = 3, which is quite high.

**Onus is on consumers because of lack of controls**

Why are diamonds valuable? Because people believe they’re valuable. The global diamond trade, like many other collectable markets, is at the mercy of the widespread absence of transparency. Buyers must cautiously scrutinize gemstones and other low-utility/high-value objects.

The diamond industry and governmental agencies don’t police all the actors in the supply/distribution chain. So, investors, collectors and everyday consumers must educate themselves so they don’t purchase bogus certificates, conflict diamonds, chemically enhanced diamonds and diamond-like substitutes. Anti-fraud professionals can help their communities avoid the pitfalls. Buyers must beware.

**10 tips to avoid most direct-consumer diamond scams**

1. **Test your jeweler.** Ask questions you already know the answers to.
2. **Research the best price for any diamond.** Use your numbers, not theirs.
3. **Insist on certificates from grading labs** (Gemological Institute Of America, American Gem Society, European
Gemological Society). Confirm that any claimed properties of stones align with these certificates.

4. **Ignore all the BIG sales.** BIG markup precedes most BIG sales.

5. **Buy only loose diamonds if you’re looking for a $1,000-plus stone.** Best place to hide imperfections or noticeable inclusions is under the prongs of the setting where you can’t see them.

6. **Get an independent appraisal.** Don’t automatically trust the jeweler’s appraisal number.

7. **Get it in writing.** Be sure you get your deposit back if you take a diamond to an independent appraiser.

8. **Forget the New York, Chicago, Los Angeles and Houston diamond districts.** Avoid these notorious scam centers unless you travel with a knowledgeable jeweler companion or you know a reputable jeweler in those locales.

9. **Ignore comparison prices that retailers give you.** Do your own comparison shopping.

10. **Never buy in tourist traps.** Better yet never buy a diamond on overseas trips even in duty-free zones. Ever.

For more information see “How to Avoid Most Diamond Scams,” Diamond Helpers, tinyurl.com/ybhfk3ky. §§§
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Espionage, Exploding Capacitors, and Fraud

Oh, what a tangled web we weave…

First published in Fraud Magazine, Vol. 32 No. 3 May/June 2017

Delayed responses to impending financial disasters can send shockwaves through investor and shareholder communities and can create cracks in the pillars of corporate ethics and fiduciary responsibility. Here we explore how one high-profile company waited too long to respond to faulty vendor parts on computer motherboards, which led to compounded market share loss, accounting irregularities, customer lawsuits and an SEC investigation.

In the high-tech world, claims of intellectual property theft, corporate espionage and patent infringement are costly but aren't uncommon.

- In 2015, the courts ordered Apple to pay $523 million in a patent dispute with SmartFlash over iTunes software.
- In 2013, Nintendo paid a $30 million fine for allegedly stealing crucial pieces of its 3D technology from Tomita Technologies.
- In 2016, a federal appeals court awarded Carnegie Mellon University a $750 million settlement with Marvell Semiconductor in a patent infringement case that was the second-highest monetary award ever handed down by the courts.

The Carnegie Mellon University-Marvell Semiconductor decision, along with some questionable accounting and internal control practices discovered by Deloitte & Touche in 2015, forced the board of directors to remove Marvell's husband and wife co-founding team from executive positions in 2016.

And then there are the "patent trolls" — companies that file frivolous lawsuits against large technology companies in the hopes that the companies will opt for quick, hefty settlements rather than pursue lengthy and more expensive trials. Fortunately, the U.S. Supreme Court has consistently ruled against these scourges of the high-tech industry.

**The domino effect of upstream supply-chain issues**

The quest for market share in the high-tech world sometimes steps into a shadowy ethical- and even illegal- environment that can have expensive, disastrous results. In what's become known as the "race to the bottom," computer manufacturers and component companies look for overseas suppliers who can meet nearly impossible delivery schedules to support a
zero-inventory business model (called "just-in-time" manufacturing), all aimed at driving down the price of PC computers for consumers.

Such a tightly tuned business model can't tolerate supply chain surprises. It's already difficult to find the right balance between providing the lowest-possible price to consumers and maintaining quality control in the supply chain. When tremors begin propagating, any disruption can encourage shortcuts, rounded corners and other shady methods to maintain the "most-favored vendor status" in the supply chain.

Espionage and intellectual property theft

In the late 1990s, a materials scientist for Rubycon Corporation Japan left the company to take a position with Luminous Town Electric (LTE) Company in China. Both companies manufacture electrolytic capacitors (known in the industry as "ecaps") that are used in computer motherboards to regulate power to various microprocessors.

Unbeknownst to Rubycon, the secret scientist also took a copy of the company's formula for its water-based electrolyte, which is a water-based chemical solution found inside capacitors that enhance the capacitor characteristics.

The faulty formula for e-caps

Following the intellectual property theft, members of the scientist’s staff defected to Taiwan to create their own company. Taiwan provides nearly one-third of the world’s
electrolytic capacitors (more than 22.5 billion pieces and assembles most of the big PC-makers’ machines.

The team that defected to Taiwan took a copy of the scientist’s electrolyte formula; however, the stolen formula was incomplete because it lacked the specific proprietary proportions of ingredients essential to long-term e-cap stability. This meant that the Taiwan company would be using a faulty formula for its electrolyte, which it was selling at rock-bottom prices to other capacitor companies. As many as 11 other companies might have been using the faulty electrolyte formula in motherboards for major computer manufacturers.

After 2,000 hours of operation, the e-caps made in Taiwan began to fail when they’d been rated to work for at least 4,000 hours. Intel claimed to have measured capacitor failure after only 250 hours of operation, according to the Passive Component Industry Magazine article.

**Only a few heard the alarms at first**

Initially, only industry specialist publications carried the story of problems seen in Taiwanese e-caps. These journals notified well-known electrical engineer gurus with special knowledge of such devices and of the issues, but the problems received no further attention, and the public was none the wiser.

But then Carey Holzman, an IT professional and freelance journalist, began publicizing his findings on the leaking capacitors on the internet and in newspapers. His articles were accompanied by impressive images of exploded capacitors on computer motherboards that revealed bulging or bursting
aluminum capacitor housings, expelled rubber sealant and leaking electrolyte fluid.

Technology bloggers picked up the story, and even though various PC manufacturers were telling them the problem was something else, tens of thousands of computer users knew the capacitors were the actual cause of the failures. And Holzman added, “Failures can occur after the warranty has expired.”

The PC motherboard vendors affected included Abit, Dell, IBM, Apple, Hewlett-Packard and Intel. After Passive Component Industry Magazine published the article about the defective electrolyte, the larger Taiwanese e-caps companies denied they were responsible for the faulty products. In fact, the defective e-caps were marked with unfamiliar brands, which weren’t recognized as belonging to well-known and respected companies. Dell seemed to have been hit the hardest by the bad e-caps it used, which Nichicon made.

The start of the fall from grace

Dell Computer is headquartered in Round Rock, Texas, and sits just 15 miles north of The University of Texas at Austin along Interstate 35. The Dell computers in the UT math department were failing at an unusual rate, and after performing post-mortems on the machines, Dell concluded that the department had simply overtaxed the machines by forcing them to perform math operations that were “too difficult.”

Tech support response was beyond belief.
The City of New York reported problems with 1,100 of 5,000 Dell computers between 2003 and 2005. Microsoft stated that 300 computers in a recent batch purchase of 2,800 computers had issues. General Electric, William W. Backus Hospital, Denison University and the Montana Justice Department all experienced similar problems with their Dell computers.

**Dell Computer hid knowledge of bad e-caps from customers**

In 2007, Advanced Internet Technologies (AIT) filed a lawsuit against Dell for refusing to take responsibility for 2,000 of its computer failures. Documents from the lawsuit made public in 2010 showed that Dell field representatives looked at the AIT computers in question and determined that AIT had “driven many of the computers too hard in a hot, confined space.” Dell’s sales team discussed selling more expensive computers to AIT as a resolution.

Wal-Mart, Wells Fargo, the Mayo Clinic and thousands of other large and small businesses used Dell computers. One customer, PointSolve, reported every one of their dozens of computers failed simultaneously. Greg Barry, PointSolve’s president, stated that, “… Dell didn’t seem to recognize this as a problem at the time.”

These customers and others weren’t victims of computers that couldn’t take the heat of complex math. Dell had shipped them PCs with faulty e-caps — and Dell knew it.
A bad situation snowballs

Customer complaints quickly began flooding Dell headquarters. And the bad news kept coming: A contractor discovered that the number of OptiPlex computers at risk of catastrophic failure was 10 times higher than what Dell had estimated. The failed motherboards were replaced with other motherboards containing the faulty e-caps.

Then things went from bad to worse. In filed lawsuit documents, Dell employees attempted to conceal the real issue from customers, going so far as to state in an email: “We need to avoid all language indicating the boards were bad or had ‘issues’ per our discussion this morning. …”

And in internal presentations, Dell salespeople were advised to not “bring this to customer’s [sic] attention proactively” and to “emphasize uncertainty.”

Ira Winkler, a technology analyst and former computer analyst for the National Security Agency, said, “They [Dell] knew millions of computers would be out there causing inevitable damage and were not giving people an opportunity to fix that damage.”

In fact, Dell was performing customer “triage” by responding first to those customers most likely to move their accounts to another PC manufacturer. Dell refused to recall the affected PC models (as did IBM, which handled the issue under product warranty) and responded only to customers who met predetermined sales and failure rate numbers.
Most other PC companies addressed the motherboard issues through product warranty or replacement. In 2005, Dell announced that it was taking a $300 million charge because it had to replace damaged computers.

After a 2007 audit showed that Dell employees had manipulated financial results to meet forecast targets, Dell restated its earnings from 2003 to 2006 and the first quarter of 2007. It also adjusted sales and net income totals downward for that same period.

While the massive PC failures weren’t the fault of Dell or any other PC manufacturers, how Dell managed the fallout was just one step that led to its tumble from grace for several years, losing market share and customers.

Questions in search of answers

Questions from customers, analysts and others were mounting:

- How much did the problems with the motherboard e-caps contribute to the eventual reasoning for adjusting Dell’s financial results?
- Was there some other reason to justify cooking the books?
- Was the pursuit of Wall Street’s unsustainable quarter-over-quarter growth model at fault?
- What additional processes should’ve been part of standard operating procedure to prevent senior executives from overriding accounting safeguards?
• How did Dell’s internal audit committee or its external accounting firm not detect the accounting improprieties?

• Why didn’t anyone in either of these groups report potential irregularities?

<table>
<thead>
<tr>
<th>Example Sale Scenario</th>
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<tbody>
<tr>
<td><strong>Issue from customer:</strong></td>
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<tr>
<td>• 10 systems have gone down with all the same failure and customer nervous about the 600 other systems</td>
</tr>
<tr>
<td><strong>Answer:</strong></td>
</tr>
<tr>
<td>• Emphasize uncertainty</td>
</tr>
<tr>
<td>• Not all systems have the affected capacitor issue</td>
</tr>
<tr>
<td>• Of these systems that have the affected capacitor, not all will fail</td>
</tr>
<tr>
<td>• Dell is committed to fixing any systems that fail</td>
</tr>
</tbody>
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*Figure 7. Dell training foils guiding sales team on how to respond to exploding e-caps issue by “emphasizing uncertainty” as to cause (Dell understood the cause).*
Between 2003 and 2007, many problems had beleaguered Dell, including wrongly anticipating what customers wanted, poor customer service, suspect product quality (primarily the e-caps) and improper accounting.

On July 22, 2010, Dell set aside $100 million to manage a potential settlement that had been brewing for five years with the Securities and Exchange Commission (SEC). (The SEC had been looking into Dell’s books.) The SEC alleged that Dell failed to disclose to investors large exclusivity payments it had received from Intel Corporation to not use microprocessors manufactured by Advanced Micro Devices (AMD), Intel’s main rival. These undisclosed exclusivity payments totaled $4.3 billion for 20 straight quarters between 2003 and 2007 and were the thread that let Dell meet its earnings targets. In 2007, Dell announced it would be using AMD microprocessors. As a
result, Intel stopped making exclusivity payments — as high as 76 percent of Dell’s operating income in Q1 2007.

The SEC charged Dell Chairman and CEO Michael Dell, former CEO Kevin Rollins, and former CFO James Schneider for their participation in the disclosure violations. The SEC charged Schneider, former regional Vice President of Finance Nicholas Dunning, and former Assistant Controller Leslie Jackson, for their participation in the accounting impropriety.

Dell Inc. agreed to pay a $100 million penalty to settle the SEC’s charges (without admission of guilt). Michael Dell and Rollins each agreed to pay a $4 million penalty (the $4 million represented one percent of Michael Dell’s stock option gains during the period), and Schneider agreed to pay $3 million, to settle the SEC’s charges against them. Dunning and Jackson also agreed to settle the SEC’s charges.

Dell’s actions at the time were the result of a toxic amalgamation of failed strategy, unethical shortcuts, poor board leadership, insufficient public accounting and the absence of meaningful punitive penalties from regulating agencies. Edward D. Hess, professor of business administration at the University of Virginia, raised several questions regarding the SEC outcome of the Dell case:

“Since the SEC found that Dell committed multi-year multiple frauds, why was Dell’s case not referred to the Department of Justice for criminal prosecution? And why was Dell treated differently than Enron or WorldCom?… The board could have informed Michael Dell that if he wanted to stay on as CEO he
needed to claw-back his stock option gains attributable to the allegedly fraudulent accounting, but it did not. Nor did Dell’s Board elect an independent chairman to oversee management. The board didn’t even announce steps to reform how executive compensation was to be calculated to shift rewards to long-term, real value creation rather than quarterly earnings gamesmanship.”

Christopher Conte, associate director of the SEC’s Division of Enforcement at the time, stated:

“Dell manipulated its accounting over an extended period to project financial results that the company wished it had achieved but could not. Dell was only able to meet Wall Street targets consistently during this period by breaking the rules. The financial results that public companies communicate to the investing public must reflect reality.”

Dell Computer underwent significant operational changes after the SEC ruling. Shareholders filed lawsuits; the courts dismissed some. Other shareholders settled prior to appeals court rulings. After going private in 2013, Dell’s financial information became confidential, which prevented Fortune magazine from ranking the company.

In 2015, Dell Computer climbed to the No. 3 largest PC vendor in the world behind Lenovo and HP. In the period after the SEC ruling, most PC manufacturers, including Dell, were faced with changing markets as the demand for laptops, and then mobile devices, overtook customer preferences. However, Dell’s financial results for F17 Q2 showed
worldwide growth in commercial PCs of 6.2 percent and a 14th consecutive quarter of year-over-year share gains in PCs.

**Turning the ship around**

Many households in the U.S. have at least one Dell computer or laptop, and many businesses use Dell products. But after the SEC ruling, it would take a lot more than fixing exploding e-caps for Dell to turn the business around. Corporate and retail customers have long memories of being kept in the dark by Dell salespeople and technicians about resolving their motherboard issues. §§§
Donn LeVie Jr.
A Bitter Tasting:
Serving Up Three Cases of Wine Fraud

You can’t tell by taste if it’s a bogus vintage

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Some wealthy wine aficionados are comfortable spending millions on supposedly rare vintages. But if they discover that they're holding hundreds of bottles of worthless wine they might try to unload it to less sophisticated collectors, and bogus wines will continue to circulate. Here are some cases to illustrate the problem and ways to investigate the fraud.

The world of rare and expensive wine collecting is populated with high rollers who enjoy the one-upmanship that private sales or public auction purchases often bring.

They enjoy the limelight of owning one or several bottles of an extremely rare vintage that renowned wine experts have authenticated. However, when these “rare” or “expensive” bottles end up being counterfeits, the connoisseurs are often too embarrassed to admit fraudsters have duped them. Wine counterfeiting has become so sophisticated that most collectors don’t report frauds or share the crimes with others.
Maureen Downey, founder of wine-fraud.com, said in an NPR Morning Edition interview that it’s impossible to detect a counterfeit wine by taste. No one has the palate to know how a 1787 Chateau Lafite-Rothschild should taste because wine character changes over time.

However, nothing leaves a worst taste in the mouth than opening a very expensive fine or rare wine only to learn that it’s bogus. You can’t tell by looking these days; in most cases, you need a sophisticated laboratory to determine whether a purported rare wine is authentic. And wine counterfeiting isn’t limited to rare collectable $20,000 bottles — fraudsters also find profit in hundreds of cases of $30 counterfeit wine.

“If somebody tells you $1 million of your collection is worth zero, your choices are take a hit or try and unload the stuff,” says Frank Martell, director of fine and rare wine for Heritage Auctions Martell, in the NPR interview. “And nobody wants to take a loss.”

While the ethics remain in doubt, it does explain why bogus wines continue to circulate among auction houses and private collectors. It’s a self-perpetuating operation.

Let’s look some famous wine-counterfeiting cases that used these methods — and one involving the classic Ponzi scheme.

**The Thomas Jefferson bottles**

Rodenstock claimed in April 1985 that he knew of a mid-18th-century Parisian home that during demolition exposed a hidden cellar that contained close to 100 bottles of wine — two dozen of which were engraved with the initials “Th.J.”

Later that year, a Christie’s-in-London wine auction garnered $157,000 for a 1787 Lafite in an old bottle engraved with a scribbly notation: “1787, Lafite, Th.J.” Christie’s claimed evidence that suggested this bottle belonged to a collection of old French wines owned by none other than Thomas Jefferson, the author of the Declaration of Independence and the third U.S. president.

That set off a buzz in the rarified wine-collection world. People scrambled to obtain one or more of the remaining “Th.J.” bottles. Near the end of the 1980s, Bill Koch (of Koch Industries) paid $500,000 for four of the Jefferson bottles.

Fast-forward to 2005. The Boston Museum of Fine Arts (MFA) was preparing an exhibit of Koch’s somewhat eclectic collection of rarities. To protect the integrity of the upcoming MFA exhibition, it asked Koch to supply provenances for the Jefferson bottles. The chances of that happening were doubtful with such a short lead time prior to the exhibition.

Koch had been the center of controversy over recent collectibles — notably the provenance and “ownership” of the rarest Greek coins ever found. So Koch hired former FBI agent, Jim Elroy, who sent an investigator to Jefferson’s Monticello estate to research the connection between the bottles and Jefferson.
Jefferson was a meticulous record keeper; he left almost no accounting gaps in 60,000 documents — none of which revealed that Jefferson had ever ordered the newly “rediscovered” vintages from 1784 and 1787. Elroy now doubted that the Jefferson bottles were real and began considering ways to test the wine without opening the bottle.

**Enter Cesium-137**

In April 2005, Elroy approached a French laboratory researcher who was using low-level gamma ray detection for Cesium-137 (Ce-137) to date wine. Ce-137 is a product of fission and didn’t exist on this planet until the explosion of the first atomic bomb.

That radioactive fallout, which is dispersed into the atmosphere, eventually makes its way into rain, soil and grapes. The French researcher protected the bottle with lead shielding and placed it close to a detector, which recorded the presence of gamma rays. He conducted the test one mile underground to additionally shield the bottle from normal atmospheric gamma radiation.

If the wine had been bottled before 1945, there shouldn’t have been any Ce-137 present. If there was, the wine would’ve been bottled after 1945. To add another layer of protection, the lead shielding had to have been smelted prior to 1945. The lead used for the Jefferson bottles tests was smelted 2,000 years ago. Repeated testing showed no Ce-137 present in the wine.
The tale of the dental drill

Elroy expanded his investigation with several global intelligence organizations and agents after the inconclusive Ce-137 test results. While running his fingers over one of the Jefferson bottles, it occurred to him to assess the engraving. With the help of experts in 18th-century engraving methods and FBI tool-mark specialists, they tried to reproduce the engravings on the Jefferson bottles.

Using a copper wheel-engraving device common in the 18th century, the letters displayed various line weights, much like the strokes of a fountain pen. The letters were also slanted in a way that couldn’t be reproduced by a copper-wheel engraving method.

The result? The Jefferson bottles must have been engraved by a modern method using a hand-held power tool with a flexible shaft, such as a Dremel tool. Investigators eventually tracked down Rodenstock’s people in Germany who’d engraved the Jefferson bottles using a dental drill.

The experts used this tool to perfectly reproduce the bottle engravings.

The final undoing

A disgruntled property owner undid Rodenstock’s scheme. After a court ruled against Rodenstock for failure to pay rent (among other problems), the landlord entered the basement of the vacated house where he discovered a stack of unused blank wine labels and a large pile of unused corks. In another
part of the basement were a few dozen empty wine bottles lying next to an old carpet covered with dirt. Rodenstock had been “aging” the wine bottles by rolling them in the dirt.

In 2007, the German magazine, Stern, offered to have the bottles assessed again but Rodenstock declined the offer. Koch filed a lawsuit in 2007 and in May 2010, a U.S. court ruled against Rodenstock who, as a German citizen, refused to participate in the trial.

**Rudy Kurniawan’s case: Mixing the old with the new**

Few people in the wine world had a nose and palate for wine like Rudy Kurniawan. In 2002, Kurniawan was making a name for himself with sommeliers in California and around the world as an intelligent, savvy wine collector and big spender.

Beginning in 2004, he started using his very discriminating palate to concoct rare, expensive counterfeit wines in his kitchen and sell them to other millionaire and billionaire collectors around the globe — including Bill Koch, who spent $2.1 million on 219 bottles of phony vintage wine.

Kurniawan seemed to be a brilliant wine chemist and mixologist — he blended young California wines with older, low-quality vintage French wines (1970s Burgundy wine, good only for cooking), often coming close to duplicating the legitimate expensive vintages. He would then add counterfeit labels that he printed from a laser printer and characterized the final product as the “rarest of the rare” to other investors.
Be careful which wines you fake

As so often happens with auctions of rare luxury or historic items, bidder enthusiasm and excitement over the rare wines far exceeded any healthy skepticism about their authenticity. But there were doubters in the investor crowd: Bill Koch and Burgundy wine expert, Laurent Ponsot, of Domaine Ponsot, both had an itch they couldn’t scratch.

In 2008, the itch was scratched.

Kurniawan overplayed his hand by trying to consign, via third party, several dozen bottles of Domaine Ponsot wine to an auction house. The problem?

That particular vintage had never existed.

Similar modus operandi

In 2012, FBI agents raided Kurniawan’s Arcadia, California, home where they confiscated corks, dozens of empty bottles and 18,000 labels of the world’s rarest wines. Kurniawan’s approach to wine counterfeiting wasn’t unlike that of Hardy Rodenstock’s. He manipulated corks, labels and bottles to fool investors, and he made each bottle to order. Kurniawan’s fraudulent operation sold at least $50 million of bogus rare wine in eight years.

Kurniawan’s trial began Dec. 9, 2013, in a federal court in Manhattan, and a few days later he was found guilty of fraud in connection with selling counterfeit wines and defrauding a finance company. He was sentenced to 10 years in prison in August 2014, ordered to pay $28.4 million in restitution to
seven victims and forfeit an additional $20 million as punitive damages.

**Wine fraud the old-fashioned way: John Fox and Premier Cru**

Oakland, California, wine merchant John Fox of the wine retailer, Premier Cru, was contracting with U.S. investors to buy European wine and sell it to customers prior to it arriving in the country. Fox promised delivery within two years for the wine shipments.

In 1993, Fox started falsifying wine purchase orders and entering them into the Premier Cru inventory for sale.

Premier Cru then offered the “inventoried” wines for sale below market price on its website. From 2010 to 2015, customers paid $20 million for the ghost wines. Fox then had to divert incoming funds to purchase wine for previous customers who hadn’t yet received their shipments. He often purchased these wines from competing stores at higher prices for bottles that he’d originally sold customers.

Fox extended the fraud even further when he used company business accounts and credit cards to pay for home mortgages, personal credit card bills, a daughter’s college tuition and country club memberships plus leased Corvettes, Ferraris, a Maserati and several Mercedes-Benz vehicles, according to the Wine Spectator article. He also admitted to spending $900,000 on women he met online.
Ponzi schemes have one end result

As with all such Ponzi schemes, the end was a foregone conclusion. Filing bankruptcy led to lawsuits in state and federal courts. Fox estimates that 4,500 customers paid more than $45 million for pre-arrival wines they never received.

In August 2016, Fox pleaded guilty to one count of wire fraud in connection with the huge Ponzi scheme. A plea agreement reduced his sentence from 20 years to six years and six months. He also agreed to restitution of at least $45 million to customers and creditors.

The harvest is ripe for wine counterfeiters

Wine tasting is a highly subjective exercise and opinions about taste are prone to psychological suggestion. Except for the pinnacle of wine connoisseurs, taste has as much influence with what we think of a bottle as what we know. If we think a wine is expensive, odds are it will taste that way, too.

And wine counterfeiters know that.

A University of Bordeaux study evaluated the theory that wine drinkers bring their own presuppositions and interpretations to wine tasting. The study showed that participants mistakenly took white wine for red (red food coloring was added to white wine samples) and were influenced in their selections by impressions from others who detected notes of “jam” and “crushed fruit” in the test samples. (See). The power of suggestion is particularly strong when it comes to wine tasting.
Persuaders use the tool of psychology to influence human behavior every day in all walks of life. As Nick Kolenda wrote in “Methods of Persuasion” (Kolenda Entertainment, LLC, 2013), the tools for persuasion can apply to both ethical and unethical end goals: Persuaders first mold perceptions and then draw out congruent attitudes. They next apply social pressure so the message becomes comfortable. Persuaders then optimize the messages, accelerate the momentum to close and finally sustain compliance.

In his later years, Thomas Jefferson stopped ordering wines directly from French chateaus because his preferences changed to Inexpensive table wines. But the frenzy over the Jefferson bottles wasn’t about the contents; the wine could’ve turned to vinegar after 200 years. The attraction was in the perceived rarity and provenance of the bottles themselves. The blind pursuit of and desire to possess rare objects is fertile ground for those ready to take advantage of such an obsession through the unethical use of persuasion psychology.

Unfortunately, it’s likely the most expensive and “rare” counterfeit wines in the cellars of collectors are still there: shelved, unopened and preserved as conversation pieces or awaiting the next unsophisticated investor.

**Wine counterfeiting methods**

A fine winery produces a limited number of cases of a particular excellent vintage and connoisseurs desperately want it. That vintage is ripe (so to speak) for counterfeit versions.
One of the most highly counterfeited wines is a 1945 Domaine de la Romanée-Conti. The winery only made two barrels of it, which is exactly 600 bottles. Counterfeit 1945 Romanée-Conti bottles have been found in every corner of the globe. One of the original 600 bottles would be worth more than $100,000.

Recently, European police arrested seven people in connection with an international counterfeiting ring that sold 400 bottles of fake Romanée-Conti wine for more than 2 million euros ($2.7 million) as well as 220,000 bottles of phony Montalcino red wine.

Counterfeiters use (often together) two basic methods to imitate an expensive or rare old wine:

1. Blend inexpensive wines to mimic expensive vintages.
2. Use artificial methods for aging bottles, corks (types, lengths), and labels (paper, ink, embossing, use of foil).

Fraudsters are increasingly finding it more difficult to counterfeit contemporary fine wines because most producers have embedded anti-counterfeiting methods. For example, wine producers use specific types of fibers in label paper, strategically embed bottle pits (tiny micro-craters in the glass) or devise exact dimensions of the punts (indentations) in the bottle bottoms.

A new technique, called the Coravin System, tests wine without damaging or removing the cork.

A device passes a fine needle through the cork. Argon gas is injected into the air space below the cork, which pushes the wine into small openings on the side of the needle and out
through the top section of the device. There’s just enough wine to extract for one glass. It’s most practical use is for taste testing old wines. However, wine dealers would have to disclose using this sampling system prior to auction sales because it could detract from wines’ values. §§§
Appendix A: Glossary of Key Influence and Persuasion Techniques and Terminology

**Affect Pool:** When actions are based more on historic associations with similar moments (good or bad) than the present moment, such as emotional stories or experiences conjure memories of similar events from past memories. Emotional arousal of any form impairs our rational judgment to some degree and can be used by both the persuasively intelligent leader and the con artist.

**Anchor Effect:** Another component of decision architecture that functions as a primary or initial cue that influences subsequent decisions. **Example:** Monthly installment payment plans can be anchors for a decision to purchase a big-ticket item that might otherwise seem too expensive when the full price is considered. Decision architecture components reveal the manner in which something is presented to us exerts a strong influence over any decision.

**Approach-Avoidance Model of Persuasion:** A condition where an individual can be convinced of something by making the subject more approachable and appealing or can be
convinced to avoid something by making it less open and alluring. Considered the two primary persuasion categories.

**Bases of Social Power:** Work by John French and Bertram Raven that defined five power bases: (1) Reward power, (2) Coercive Power, (3) Legitimate Power (authority based), (4) Referent Power (based on affiliation with someone), (5) Expert Power (based on topic-based expertise).

**Cognitive Dissonance:** Attempting to hold two opposing beliefs simultaneously. Example: The smoker who knows smoking is bad but continues to smoke (the nicotine addiction variable is at play as well); the college student who knows he needs to study for finals but opts to party all weekend instead. People try to dial down the tension **Cognitive Dissonance** creates through **Dissonance Reduction** (also referred to as the **Placebo Effect**):

- Selectively ignoring the dissonant information or seeking other confirming information (“I can still study Sunday night; I’m confident I know enough to pass the finals...”)
- Revising a prior belief (“I’ve been studying all along, so there’s no need to cram...”)
- Remove/eliminate one of the opposing/lower priority beliefs (“I need to put the partying on hold this weekend so I can study for finals...”)

It’s far easier to change what one believes about the need for studying for finals than to actually study for finals.
Confirmation Bias: The predisposition to selectively gather and filter evidence to confirm preconceived beliefs and expectations. Confirmation bias is a dissonance-avoidance bias and is used by anyone need to put a positive spin on a situation, be they lawyers, politicians, public relations professionals, teachers, and con artists.

Creeping Determinism: The nature of judgments occurring before and after the fact. It is a common tendency for people to perceive events that have already occurred as having been more predictable than they actually were before the events took place. See also Hindsight Bias.

Default Effect: Another component of decision architecture that draws people into more offers (or even fewer) than expected or wanted; in other words, there’s no opt-out option. The Default Effect is one primary reason permission-based marketing, cookies policies and opt-ins are universal.

Elaboration Likelihood Model: A theory of persuasion where we process a message differently depending on our motivation level. We are more easily focused and persuaded in a message when we are highly motivated.

Endowment Effect: A belief that people value more what is already in their possession than what they don’t have. A belief in the “winner” one possesses is stronger than the feeling of regret if one surrenders that winner (“A bird in the hand is worth two in the bush” – John Ray’s Handbook of Proverbs, 1670). Con artists relish such an effect as they are in control of the outcome and realize people will cling tightly to the “winner” they hold rather than face years of regret for
surrendering it for something else of potentially higher value – or simply walking away.

**Eponymous Effect:** A function of memory whereby interrupted tasks are better remembered than completed tasks. However, in many instances, if an interrupted task is associated with a negative outcome, that task/experience is quickly and conveniently disregarded. Relegated to the memory basement where it is rationalized as a spurious event, when a comparable situation presents itself, the negative memory is buried too deep under decades of dust and other forgotten items to warn of the previous situation.

**Even-a-Penny-Would-Help Technique:** Similar to the Foot-in-the-Door Technique, but the request is much smaller and involves just one option. It is designed to exploit the “legitimization effect” whereby a small request “legitimizes” the individual making the request to another or others because such a small request couldn’t be a con job or have strings attached (which they often do by

**Expectancy:** The belief and anticipation in how an investment, project, circumstance, opportunity will progress. A set of expectations drives thoughts, feelings, and actions as new information adds to or detracts from those expectations. That latest information is also subject to how it is interpreted, evaluated, and applied toward those expectations, which can lead to ignoring the latest information or adjusting the expectations accordingly.
Foot-in-Door Technique: Based on the behavior whereby a person responding to a small request or favor for another is more inclined to agree to a second, larger request later.

Gambler’s Fallacy: The tendency to believe that chance (randomness) eventually reaches a zero-sum point (balance). The mathematics of probability is immune to the timing of an event, both before and after the event. Each new event remains independent of the one before and has no effect whatsoever on the one that follows. See Hot Hand/Hot Streak Fallacy. (P.S. The Gambler’s Truth is that the house always wins.)

High Machs: Individuals who score high on the Machiavellianism scale, a psychological measure developed in 1970 to capture manipulative tendencies in leaders. People with low scores tend to let emotions influence decisions to a stronger degree than high Machs.

Hindsight Bias: The tendency to dismiss events or circumstances that place doubt on our skills or personalities by assigning blame to external causes. Such Hindsight Bias robs individuals of learning from the event or circumstance to be in a better position the next time such situations present themselves. They fall back on previous beliefs. Also known as the Knew-It-All-Along Effect.

Hot Streak/Hot Hand Fallacy: The belief in the illusion of consecutive successful outcomes with time, money, or resources. First observed in 1985 with basketball players making consecutive free throws, two-point baskets, or three-point baskets, the Hot Streak Fallacy is a departure from rationality (and statistical probability) because it focuses on
brief time intervals (example: the percent of consecutive baskets made in a game versus of a season or a career). The longer the time interval, the closer the probability comes to 50/50. In fact, regardless of the “hot streak” a player is enjoying, each individual shot on the basket has a 50/50 chance of being successful.

A study released in 2006 that covered twenty years of data reported a crushing lack of evidence for the hot hand/hot streak. The **Hot Streak/Hot Hand Fallacy** is created by a belief in what people want to happen, especially for outcomes deemed critical or high value.

**I’m-the-Exception Effect:** A type of reasoning that is characterized by a heightened sense of entitlement, lack of guilt, justification of actions, and insincere confessions and apologies. Examples of individuals displaying the I’m-the-Exception Effect include Bernie Madoff, Lance Armstrong, and Martin Shkreli.

**Mere Exposure Effect:** The condition whereby familiarity of some person leads to an affection for them. That familiarity-created-affection is a powerful tool for both leaders with influential intelligence and con artists.

**Mesmerism:** Named after Franz Mesmer, a German physician (1734-1815). Mesmer’s claim of “animal magnetism” was proven unscientific, but his work demonstrated the power of the human mind’s belief systems to alter reality, and how the mind influences the health of the physical body. Mesmer had robust powers of influence and persuasion, to be sure, but his methods failed scientific rigor at the time. As he gained more
converts and proponents for his methods, he became more popular as the frenzy of crowds everywhere fueled his success.

**Mind Perception:** The ability to determine what others feel, their wants and desires, their motivations and drives by listening to words used, vocal inflections, gestures, facial expressions, and tone to infer a picture of their personality.

**Momentum Theory:** The tendency to push forward with an action already in motion despite indications that doing so may not be the best option. That momentum can come in many forms, such as a convincing narrative being spun by a strong influencer or a board of directors voting to move a project forward despite misgivings by outside experts brought in to offer their learned opinions. Those who are heavily invested in a project or action to its fruition have a jaded perspective. They have crossed a financial Rubicon and can’t turn back because of their commitments of time, energy, money, and reputation.

**Mood as Information:** A condition whereby people’s emotions influenced how they processed information and later made decisions. Also known as the **Affect Heuristic:** Decisions (without conscious evaluation) based on whether someone believes the subject under consideration is “good” or “bad.”

**Motivated Cognition:** A process of how one’s view of the world is colored by self-interest and a presumed higher perception bias. The more similar a person is to another, the less objective one becomes evaluating that other person. Such presumptions of similarity is known as **Self-Serving Bias.**
**Negative Recency Effect:** Related to the Gambler’s Fallacy, when recalling items from a list, Negative Recency implies that the last items will be the most difficult to remember and recall. This effect is seen often in casino games that rely on a player’s ability to remember and recall items from past hands (various card games), dice rolls, coin tosses (number of previous heads or tails), and others. When losses mount (due to trying to predict “probability outcomes”), it’s not unusual for that loss to evolve into a deeper commitment to continue to “win it all back with one good hand.” Unfortunately, the more realistic outcome is that the losses continue to mount. It’s then easier to fall into a mounting losses → deeper commitment → renewed losses → deeper commitment cycle.

**Nudge Effect:** A component of what’s called “decision architecture” that when used in a positive manner, helps direct decisions in a particular direction without forcing some action or preventing it. It involves influencing a decision by changing how the elements leading up to that decision are presented. The environment in which a decision is being made often affects the decision.

**Optimistic Bias:** The human tendency toward misperceiving how the world works and our progress/success in it and through it. It’s the belief that we will come out on top in life and circumstance partly based on self-exceptionalism and on self-optimism. Both the leader with influential intelligence and the con artist use Optimistic Bias (also called Positivity Bias) to encourage others to dedicate themselves to a commitment, though with opposing intent.
Order Effect: Another component of decision architecture whereby the actual physical location of something, such placing objects or people in more privileged positions to influence a decision.

Ordinary Personology: The ability to assess another individual using physical features, body language and clothing.

Pinocchio Circling: An effect that causes someone to fail to notice falsehoods in a narrative the more captivating the narrative. The spell of the narrative overpowers the facts of logic, making one more susceptible to the con artist’s spin of the tale.

Priming/Illusion of Truth: A technique that capitalizes on familiarity by briefly, subtly, and matter-of-factly setting up a scenario ahead of time (planting seeds of information) so that later when brought to the center of discussion and elaborated upon, the idea already feels “familiar” to the other party. People are more likely to assume truthfulness to something that feels familiar.

Pygmalion Effect (Self-Fulfilling Prophecy): An effect whereby selective information, which may be true or false, is provided to an individual or population to induce a change (positive or negative) in behavior, attitude, or response to that information, thereby altering an individual or population’s self-belief. The positive application of this effect can create a new belief and a changed reality; however, the negative application as used by con artists can have destructive consequences. See also Confirmation Bias.
**Q-Facing Test:** A simple test to gauge one’s self-monitoring tendencies. Using your index finger, draw the letter “Q” on your forehead. If the tail of the Q is to the left such that others could read it, you are a high self-monitor, being concerned with appearance and perception – how others see you. You may be more likely to manipulate reality – even ever so slightly – to make a better impression.

**Reverse Pique Technique:** A technique designed to ramp up the cognitive load (focused attention) of someone such that attention to crucial details are glossed over. **Example:** Engaging nightclub bouncer in distracting conversation (increasing cognitive load) such that the date of birth on an ID (important detail) fails to consciously register with him.

Cognitive overload often occurs when several types of information, affecting different areas of the brain for processing, arrive simultaneously. It’s often the case that in such situations, decisions are based on what one wants to do (emotional choice), not what one should do (rational choice).

**Self-Perception Theory:** People judge themselves based on their actions. The default condition is for people to think of themselves as worthy individuals, and when an opportunity is framed to affirm that self-perception, people are more likely to comply with it because they want their actions to comport with the self-perception.

**Six Principles of Persuasion:** Developed by Dr. Robert Cialdini, they are: (1) Reciprocity (mutual exchange), (2) Consistency (uniformity in beliefs over time), (3) social validation (participation = group identity), (4) liking (emotion
attachment), (5) authority (knowledge and position), and (6) scarcity (value attached to shortage of an item). The application of these principles can serve the leader with influential intelligence or the con artist, depending on the ultimate intent.

**Status Quo Bias:** The belief that once someone owns an object, its value increases by virtue of that ownership. **Example:** A world-renowned classical guitarist owns a rare Ramirez classical guitar he paid $25,000 for. A few years later, he asks $40,000 for the instrument. When questioned about the excessive value assigned to the instrument, the virtuoso responds with: “Because I owned it and I performed with it.” (True story.)

**Sunk-Cost Fallacy:** A belief that it would not be prudent to stop an action or endeavor already in motion due to new information that changes assumptions because of the prior investment in financial resources. Sunk costs are that; once “sunk” or spent, there’s no “recovery” available. The only costs of concern are those that would be incurred by continuing forward with the action.

This fallacy is about the belief that due to sunk costs, a project can’t be abandoned when in truth, a project can be abandoned for a number of valid reasons as new information suggests, such as public safety concerns, environmental impact changes, financial downturns, etc. However, the longer and deeper the investment, the more difficult it is for reason and logic to override the sunk-cost fallacy.

Abandoning an action, project, or endeavor might exact a high psychological price, especially if one must admit to error, so
staying the course becomes the only path available. If the project results in disaster with loss of property and life, the hindsight of admitting error would have been the easier route than now having to admit guilt or negligence in a court of law. Sometimes referred to as willful blindness. See also Momentum Theory and Endowment Effect.

Superiority Bias: The belief that one is extraordinarily “special” in some way (brilliant, attractive, high family pedigree, super-talented, etc.) or even in ordinary ways as performance self-assessments attest. The Superiority Bias explains why people are better at remembering the most positive/good habits, traits, and experiences better than those that make us look more everyday normal. People with superiority bias often suffer from willful blindness, making them more susceptible to a well-spun yarn because of how they arrive at decisions from a superiority position.

Superiority Bias is also referred to as the Lake Wobegon Effect, the Better-Than-Average Effect, Illusory Superiority.

That’s-Not-All Technique: A persuasion tactic that uses an “baseline” offer (maybe legit or not) to interest another party and then quickly tosses in “bonuses” to sweeten the proposal. Often used in traditional marketing and promotion approaches with valid baseline offers (“You can get any car on the lot for no money down – but wait – that’s not all! We’ll throw in free oil changes and tire rotation for a year.”). Also known as the Disrupt-then-Reframe Technique.

Wishful Identification: A condition whereby the individual would like to wishfully exchange places with the narrator
based on narrative. As the con artist’s spin relates more to an individual’s circumstances or appearances, the more likely that person is to relate to the con artist. Likeability leads to believability and relatability for both the con artist and the persuasively intelligent leader.
Donn LeVie Jr.
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In 2013, Donn set out on his own as a leadership coach and mentor, speaker, and strategist serving public and private organizations and associations primarily in the anti-fraud sector. He holds the “Certified Fraud Examiner” designation.

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Donn currently lives in Austin, Texas with his wife Jeanette. Though now retired, he continues to author books on the power of influence, writes for Fraud Magazine, and speaks to corporations and associations about implementing “Weapons and Strategies of Mass Persuasion™.” To learn more about having Donn speak to your organization, contact him at donn@donnleviejrstrategies.com.