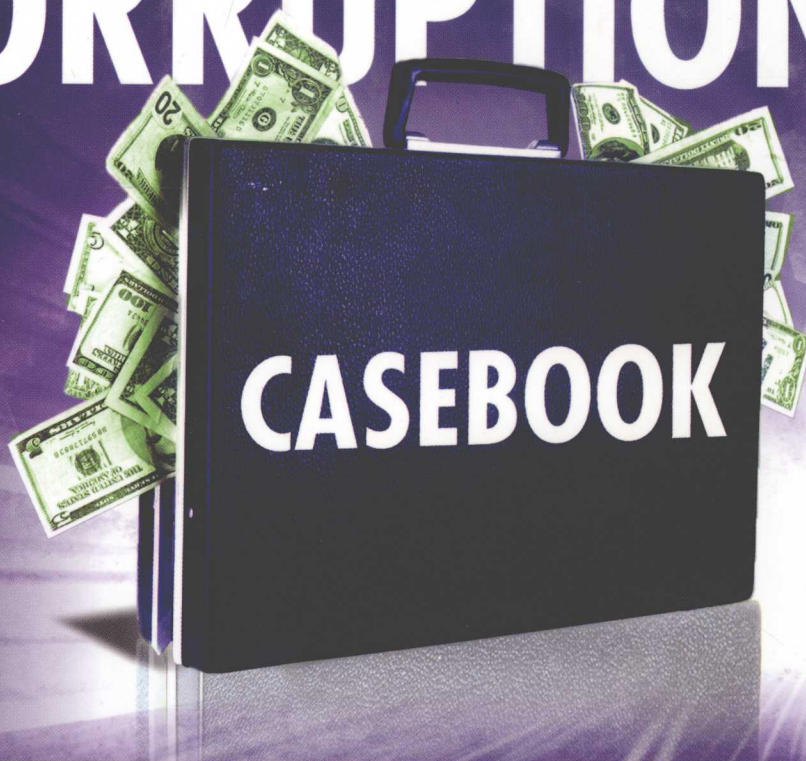


# **BRIBERY AND CORRUPTION**



**The View from Under the Table**

EDITED BY  
**JOSEPH T. WELLS**  
**LAURA HYMES**



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# **Bribery and Corruption Casebook**

**THE VIEW FROM UNDER THE TABLE**

**Edited by**

**Joseph T. Wells  
Laura Hymes**



**WILEY**

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## Preface

**C**orruption is not a new development for humankind. As long as there have been recorded accounts of human history, there have been stories of deceptive self-dealing and betrayal for personal gain. We need to look no further than the Roman Empire for countless examples of corruption, bribery, political dishonesty and discarded alliances. The civilization that helped establish a blueprint for modern democratic governments also created a model for just about every corruption scheme imaginable.

Take the account of Emperor Nero's rise to power as an example. He gained the title of emperor amid rumors that his mother, Agrippina, poisoned her own husband and Nero's stepfather, then-emperor Claudius, so her son could ascend to the throne. Nero was still a teenager at the time, and Agrippina believed she would be able to direct the course of the empire by manipulating her son. However, when Nero began asserting his own power and eschewing his mother's influence, Agrippina turned her hopes to her stepson Britannicus. As the birth son of Claudius (although he was younger than Nero), Britannicus could challenge Nero for the throne — a threat the emperor took seriously.

As the story goes, Nero first poisoned the 15-year-old Britannicus to assert himself as Rome's rightful leader and then arranged for his mother to be killed. After these shocking crimes, he embarked on a spree of executions to eliminate senate members he did not trust and anyone else he considered a political threat. And there we have the framework for a leader to corruptly consolidate and establish his power.

Modern corruption has become slightly more subtle and, luckily, we see fewer outright assassinations these days, but that comfort does nothing to reduce the damage that this fraud still causes. *Black's Law Dictionary* defines *corruption* as "depravity, perversion, or taint; an impairment of integrity, virtue, or moral principle; esp., the impairment of a public official's duties by bribery." Corruption can include conflicts of interest, bribery, economic extortion and illegal gratuities. It is everywhere — an insidious, communicative disease that plagues private industry, public service and the political process. It destroys trust, bottom lines, careers and even lives. As the cases in this collection demonstrate, no one is immune to

corruption. Try as we might to implement controls and procedures to prevent ourselves and our employers or businesses from becoming victims, cunning criminals make it their goal to circumvent our hurdles in pursuit of their own self-interest.

Most people have heard of Rod Blagojevich. You might think of President Barack Obama when you hear his name, or you might simply picture that trademark Blago hair. Either way, in the past few years he has become a poster boy for corruption. In 2008, when then-Senator Obama was elected to the presidency, he left a vacant U.S. Senate seat up for grabs in Illinois. As governor of Illinois, Rod Blagojevich had the authority to appoint someone to fill the vacant senate seat, but he abused his gubernatorial power and solicited bribes and other favors from parties who had an interest in the seat. As part of the investigation into Blagojevich's suspected corruption, the FBI wiretapped his phone. Perhaps the most infamous sound bite to come from those recordings was the one where he described his position as "f\_\_\_ing golden" and said he wouldn't give the appointment away "for f\_\_\_ing nothing." The recorded evidence turned out to be the most damning against Blagojevich, and he was eventually found guilty of 17 out of 20 criminal charges, including bribery and attempted extortion. He was sentenced to 14 years in prison.

Corruption is not confined to the political circus. Public and private companies often suffer losses, both financial and reputational, from the corrupt actions of owners, executives and staff members. The primary anti-corruption legislation in the United States is the Foreign Corrupt Practices Act (FCPA), a law that Congress enacted in 1977. The FCPA makes it illegal for U.S. companies or individuals acting anywhere in the world to directly or indirectly offer or pay anything of value to foreign officials to obtain or retain business. In addition to U.S. citizens and enterprises, the FCPA also applies to foreign companies that have securities registered in the United States or file reports with the Securities and Exchange Commission, and to foreign individuals and companies that take any action to promote a corrupt payment while in the United States.

Remember the Siemens bribery scandal in 2008? The German engineering firm was undergoing scrutiny in the United States and Europe based on claims that staff and managers paid bribes to foreign officials in various countries to secure lucrative contracts. The amounts were staggering; for example, according to a *Frontline* article called "At Siemens, Bribery Was Just a Line Item," one single accounting employee at Siemens claimed to oversee an annual "bribery budget" of \$40 to \$50 million. That is just one staff member at a company that employed thousands. The company faced FCPA charges in the United States and eventually reached a settlement agreement that included paying \$800 million in fines. At the same time Siemens settled another case, this one in Europe, for hundreds of millions of dollars as

well. In total, Siemens paid \$1.6 billion to settle corruption charges around the world.

In 2010, news emerged of another multimillion-dollar international corruption scheme. Six oil and gas companies (Transocean Inc., Tidewater Marine International Inc., Pride International Inc., Noble Corporation, Shell Nigeria Exploration and Production and Global Santa Fe Corporation) and one shipping company (Panalpina) were accused of bribing officials in various countries for the ability to import equipment into the countries without paying the necessary taxes and fees. This case was also settled and the companies collectively agreed to pay \$236 million in fines.

According to the ACFE's 2010 *Report to the Nations on Occupational Fraud and Abuse*, corruption cases accounted for 32.8 percent fraud cases during the reporting period, and the median loss per case was \$250,000. To prevent and detect corruption schemes, it helps to be aware of the common red flags associated with such frauds. In 45.6 percent of corruption cases in the *Report to the Nations*, the perpetrators displayed unusually close ties with a vendor or customer. The second most common behavioral red flag was living beyond their means, as seen in 42 percent of cases. Clearly, corruption is a costly fraud, and knowing what warning signs to watch for might help business owners prevent future cases.

In this book, you will read corruption cases from around the globe, large and small, punished and unpunished. We have changed the names of people, places and companies to maintain the anonymity of those involved, but the facts of the cases are genuine. These are real corruption cases, investigated by members of the ACFE. All profits from this book will be donated to the ACFE Scholarship Foundation in the hope that future fraud fighters will receive the education they need to carry the torch into the next generation.

Publishing a book is a collaborative effort, and this one was no exception. The members of the ACFE who submitted case studies to this project deserve the lion's share of recognition for all their hard work. It was a pleasure collaborating with these professionals who are out in trenches every day. Without their efforts, this book would not be in your hands right now. In addition, we would like to thank ACFE editors Laura Telford and Diane Calmes for providing invaluable editing assistance. Stacey Rivera and Natasha Andrews-Noel at John Wiley & Sons are consummate professionals and made the sometimes-tumultuous publishing process run seamlessly.

Bribery and corruption are among the oldest and most primitive fraud schemes that humans commit. People have been acting corruptly for centuries, and they don't appear to be slowing down. "It's just the cost of doing business in foreign countries." This weak excuse is commonly offered by corporate officers facing charges of violating the FPCA. However, committing fraud should never be a cost of doing business. The greater awareness we, as a community, can bring to this issue, the greater our power will be to combat

it. Whether you are a practitioner, educator or simply a concerned citizen, we hope this book will motivate you to continue the fight.

Dr. Joseph T. Wells, CFE, CPA  
Laura Hymes, CFE  
Austin, Texas  
April 2012

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# CHAPTER 1

## The Hot-Tub Highwaymen

TED WENDLING

As companions, William Lassiter and Larry Evans appeared to be an unlikely pair. An urbane, college-educated entrepreneur, Lassiter had carved out a lucrative niche in the domestic snow-removal market by patenting a durable, carbide snowplow blade guard that extended the blade's cutting edge, thereby increasing its life span. In contrast, Evans was a high-school dropout, a crude, overweight, uncultured laborer who liked to hunt and fish. Evans' grooming habits included a weekly toilette that he conducted in the privacy of his dingy office at the Ohio Department of Transportation (ODOT) in which he would cut his fingernails and toenails, leaving the yellowed clippings strewn under his desk.

Dissimilar as Lassiter and Evans were, fortune had cast them into an economic symbiosis that made them fast friends: Evans, the equipment superintendent at ODOT's Cleveland district office, awarded millions of dollars in business to the Lassiter Blade Company. In turn, Lassiter treated Evans to all-expenses-paid trips to Las Vegas and spent thousands of dollars on fishing excursions aboard "Captain Larry's" private Lake Erie charter fishing boat, the *Walleye Warrior*.

As the men bobbed together in Lassiter's hot tub on a warm summer night, surrounded by other ODOT vendors and dancers from Lips & Sips, a Cleveland strip club, they toasted to their mutual success. Lassiter's summer-time soirees, dubbed "Fat Man Soup" parties by some of the dancers, were blue-collar bacchanalias that included other people who were feeding off of ODOT's largesse: Craig Horford, a germaphobic information technology whiz whose climate-control company had a lock on all of the ODOT district office's HVAC work; Dennis Pfister, the ODOT facilities manager who managed Horford's contract and worked down the hall from Evans; and Jennifer Moore, a young Lips & Sips dancer who had clawed her way into Pfister's wallet by duping him into believing that he had sired her four-year-old daughter. As Pfister often boasted to his ODOT colleagues, not bad for a 63-year-old.

Missing on this evening was Fred Waxman, another ODOT vendor who had helped furnish an apartment for Moore and had picked up bar tabs for Pfister all over northeast Ohio in exchange for hundreds of thousands of dollars in unbid ODOT garage-door contracts. Waxman had been invited but had been unable to attend. Also missing was Evans' top purchasing official, Rick Rogers, who was working his own side deals with the Lassiter Blade Company and some of Evans' other vendors.

"Where's Dennis?" Lassiter asked Evans.

"I think he's in the house with Ruby," Evans responded. Lassiter, a divorced father who had left his wife for a stripper and now shared custody of their two daughters, had learned long ago that Evans and Pfister were a matched pair. But as fond as he was of Evans, he considered Pfister to be untrustworthy and a lecherous boor. Lassiter stalked into the house, quickly found the missing couple and escorted them outside. Sliding back into the hot tub, Lassiter hissed into Evans' ear: "They were in my daughter's bedroom!"

## **Building an Empire**

District 12 of the ODOT is headquartered in the Cleveland suburb of Garfield Heights. One of 12 ODOT district offices that operated as virtual fiefdoms, it spanned three counties, employed nearly 500 people and had an annual budget of \$50 million.

Two of the district's largest divisions are Facilities and Equipment. They were headed, respectively, by Dennis Pfister and Larry Evans. Together, the men oversaw an empire that included the maintenance and repair of all buildings and structures as well as the purchase and maintenance of all trucks, snowplows, garage equipment and supplies, ranging from chain saws and weed-eaters to light bulbs and bug spray.

Pfister, Evans and their subordinates worked in a warren of offices down the hill from the district headquarters, where the white-collar bureaucrats were ensconced. The men's mandate was simple: plow the roads in the winter and cut the grass and remove the roadkill from the highways in the summer. If you could accomplish that agenda, you could have the distinction of winning a rare public-sector award for organizational excellence from the Ohio Partnership for Excellence, which ODOT District 12 did, twice. But unfortunately for the taxpayers, you could also have carte blanche to commandeer ODOT's entire purchasing and procurement apparatus for personal gain.

Thus it was that vendors who wanted maintenance contracts from ODOT were told by Pfister to pony up: out-of-state hunting trips, vacation junkets, bar tabs and cash — lots of it. Down the hall, vendors who sought ODOT equipment contracts were told by Evans that Lake Erie walleye and perch charter bookings aboard the *Walleye Warrior* — at \$300 to \$500 a day and

up to \$1,000 a day for “executive charters” that included strippers — were going fast.

Pfister’s and Evans’ various business enterprises were aided by the fact that ODOT empowered the two men with direct-purchasing authority, which allowed them to choose the companies from which they sought competitive bids. ODOT’s regulations regarding obtaining items that were not on contract were simple: purchases up to \$1,000 required one quote, purchases up to \$2,500 required two quotes, and purchases above \$2,500 required three. ODOT also treated subsidiary companies as unrelated enterprises as long as they had unique tax identification numbers. Thus, three companies could share the same business address and the same corporate officers and still bid against one another as long as they had separate tax ID numbers.

This unusual practice gave Pfister and Evans wiggle room when dealing with the State Controlling Board’s mandate that Ohio agencies could spend no more than \$50,000 per vendor per fiscal year for supplies and services that were not covered by existing contracts. The purpose of the \$50,000 cap was to enable as many small businesses as possible to compete for State of Ohio business. Under ODOT’s tax ID policy, circumventing the cap was easy: as soon as Company A hit the \$50,000 ceiling, subsidiary Company B would take over. For purposes of meeting the three-quote regulation, ODOT even accepted throw-away quotes from ineligible companies that had already reached the \$50,000 cap.

As part of its fiscal oversight of its 12 districts, ODOT headquarters seemingly went to great lengths to track the vast quantity of supplies and equipment that the districts purchased by requiring that all purchases be entered into one of two computerized inventory-tracking systems. There was only one problem: ODOT had no method of ensuring that the products it was buying were actually entered into the two systems.

## Swimming Trips

I was a newly hired deputy inspector general (IG) in the Ohio Inspector General’s Office in Columbus when my boss, Inspector General Tom Charles, forwarded me a two-sentence, typewritten allegation that had arrived in the mail: “Check into ODOT Boat Days. Fred Waxman has been taking Dennis Pfistler [*sic*] and other ODOT vendors fishing on Lake Erie.” The note was unsigned.

Waxman owned Erie Overhead Doors, a state vendor. Pfister was his ODOT contract manager. If true, the trips constituted a potential misdemeanor ethics violation. After reviewing Waxman’s contract with ODOT and examining numerous invoices from Erie Overhead Doors, I asked ODOT’s accounting administrator to have one of her auditors review the previous year’s purchases from Waxman’s company. The audit identified \$84,000 in questioned costs, including inflated labor rates that Pfister had approved.

Using the IG's administrative subpoena authority, I summoned Waxman to Columbus for an interview. Based on several earlier phone conversations, I was unsurprised when he denied virtually every allegation. Sure, he said, he had sold garage doors, at fair-market value, to Pfister and a couple of other ODOT employees. But he had not overcharged ODOT a nickel, and he had never taken Pfister fishing. Instead, Waxman claimed, he, Pfister and some other men had taken Waxman's 36-foot Tiara yacht out on Lake Erie and had gone swimming.

"You're lying, Fred," I told him. "Grown men don't go swimming together in Lake Erie."

"Ted, I swear, I'm telling the truth," he insisted. "There wasn't a rod on that boat."

In the following weeks, I continued to hound Waxman, telling him that I was writing my report and that it would include a criminal referral to a county prosecutor. One day, he phoned me, clearly frantic. "I'm a wreck," he said. "I've lost weight and my wife doesn't understand what's wrong with me. I want to cooperate, but I want amnesty." I told him I would talk to my boss and the prosecutor but couldn't promise him anything.

"Okay," he said, "tell them this: I was paying Pfister. You can also tell them that I was telling you the truth. They *were* swimming trips, but there were strippers on the boat."

Waxman's admissions made it clear that what was going on at ODOT District 12 involved more than mere ethics violations. In addition to Pfister and the strippers, other participants in Waxman's "ODOT Boat Days" excursions were Evans, the ODOT equipment superintendent, and several other vendors over whom either Pfister or Evans had contract authority. It appeared that the investigation would require more resources. Given the fact that the matter now involved criminal allegations of bribery and contract steering, the IG also requested the assistance of the Ohio State Highway Patrol, which has jurisdiction over crimes that occur on state property. Unlike the deputies in the Inspector General's Office, Highway Patrol investigators also have arrest powers and the ability to conduct search warrants.

In the following months, our office issued dozens of administrative subpoenas to ODOT vendors, banking institutions and other businesses, focusing on the vendors that had done the most business with Pfister's and Evans' divisions during the previous decade. As we pored through the boxes of records generated by the subpoenas, an interlocking web of schemes began to take shape, including what appeared to be the centerpiece of the conspiracy: almost all of Evans' *Walleye Warrior* customers were ODOT vendors over whom either he or Pfister had contract authority. Illustrating Evans' complete disregard to the impropriety of this mutual back-scratching arrangement was an entry on one of his calendars, noting that he was scheduled to attend mandatory state ethics training on a Wednesday morning. Later that

day, along with five other days that week, Evans had booked fishing trips with ODOT vendors on the *Walleye Warrior*.

The searches also generated more evidence of improper gratuities and relationships: “kill-it-and-grill-it” hunting trips to game ranches in Texas to shoot wild boar and blackbuck, an exotic species of antelope imported from India, followed by cross-border visits to a Mexican brothel; a trip to Seward, Alaska, to participate in a salmon fishing tournament; hotel accommodations and meals in Las Vegas; bar tabs at Lips & Sips and other strip clubs throughout northeast Ohio; and golf outings at a private country club that featured strippers in various stages of undress frolicking with drunken ODOT vendors on the front nine.

The subpoenas were followed by the execution of search warrants by the Highway Patrol and our office at Pfister’s and Evans’ homes, as well as the homes or businesses of six ODOT vendors. Evidence seized during those searches included numerous computers and hard drives, hundreds of floppy discs and CDs and tens of thousands of pages of paper records. As teams of investigators fanned out at the spacious offices of the Lassiter Blade Company, Lassiter gathered his employees in a conference room to express his outrage and demand an apology. “Larry Evans is a dear friend of mine,” he thundered. “He is a great hunter; I love to hunt. He is a great fisherman; I love to fish. I have done nothing wrong.” Among the investigators, Lassiter would come to be known as “the strippers and hams guy” due to his infatuation with strippers and his habit of sending \$50 gift certificates for HoneyBaked Hams to his ODOT contract managers at Christmas.

At Evans’ home, investigators found thousands of dollars’ worth of stolen ODOT tools and equipment, ranging from chain saws, to Weed Eaters, to welders. The search of Pfister’s home also turned up stolen ODOT equipment as well as a Ruger semiautomatic pistol with an illegal, handmade silencer.

Stored in the attic of Pfister’s garage was the blueprint to his scheming — a banker’s box filled with color-coded envelopes containing doctored ODOT quotes. The box was a virtual encyclopedia of fraud that included fictitious company letterheads, forged signatures of real and fictitious vendors and cut-and-paste competitive quotes that Pfister had meticulously altered by applying tiny dots of ink to the overlaid quotes to match the paper stock.

## More Tips, Lips & Sips

Weeks of time-consuming work followed as my colleagues and I sifted through thousands of phony quotes and the huge trove of evidence seized during the searches. Providing me with what I call my Ahab moment (and fueling my obsessive hunt for Pfister) during these periods of drudgery were the words that Pfister had uttered to a cooperating bartender whom the Highway Patrol had secretly wired. Speaking into a microphone that had

been inserted between the bartender's surgically enhanced breasts, Pfister counseled her to lie under oath, telling her that the Inspector General's Office was all bark and no bite. "All they can do is write a report," he told her. I taped those words to my office door.

As investigators zeroed in on several bid-rigging schemes that were being carried out by Pfister and Evans, an anonymous call came in about Rick Rogers, Evans' top purchasing guy. "Check out RIP Cleanout Specialists, Rick's private company," the caller said.

RIP was a home-foreclosure business. A check of ODOT records showed that the company had done more than \$43,000 in work directly for ODOT and that Rogers had brazenly used his home address to invoice ODOT. On top of that, he had been billing ODOT for work that his company had not performed.

During an interview of Rogers, one of my incredulous colleagues asked him how he justified using RIP to buy cell-phone cases at a big-box discount store and then reselling them to ODOT at a 150 percent markup. "I run a small business," Rogers answered without a trace of sarcasm. "I'm in business to make money."

As the investigation demonstrated, he made plenty of it — lodgings at the Marriott for his wedding anniversary; contributions to a men's hockey league that he managed; donations to his daughter's gymnastics meet; and more than \$25,000 in gifts and gratuities for rigging bids on the sale of \$1.4 million in trucks and truck parts, including a membership to a private golf club. Among the phony truck-parts quotes that sailed past ODOT auditors were 20 quotes in which Rogers had transposed two letters in the company president's last name.

"I don't know how that happened," he said.

## **Court Date**

Eighteen months after the anonymous letter about Waxman and Pfister first landed on my desk, Deputy IGs Jim Canepa, Don Petit and I forwarded a nearly 500-count criminal referral to Paul Soucie, head of the Economic Crime Unit at the Cuyahoga County Prosecutor's Office in Cleveland. The referral documented nearly \$11 million in improper or questionable payments that had been made to ODOT vendors as a result of bid rigging or fraud or of the improper relationships that existed among vendors and ODOT purchasers. Our investigation also documented nearly \$400,000 in gratuities and other improper payments that had been made to Pfister, Evans and Rogers by dozens of ODOT vendors. The payments included \$227,000 that ODOT vendors had put into Evans' pocket by chartering fishing trips with the *Walleye Warrior*.

Including exhibits and nearly 150 witness statements, our criminal referral filled 10 banker's boxes. Soucie also asked us to design a pyramid chart