FRAUD AND CORRUPTION CASE STUDY

Background
The following hypothetical scenario is designed to assist government officials involved in World Bank-financed projects, spot fraud and corruption “red flags” and various other irregularities. The scenario is hypothetical but based on specific known incidents of fraud or corruption that have occurred in World Bank-financed projects.

Assignment
Participants will be broken up into groups. Each group will elect a chairman. The participant’s responsibility will be to do the following:

a. Identity facts that amount to “red flags” or raise concerns regarding fraud and corruption in the project. Explain why each set of facts is a “red flag.”

b. For each “red flag”, recommend specific procedures and processes that could have prevented or mitigated the occurrence of the “red flag” at the onset of the project.

Case Study

I. The Board of Directors of the World Bank has approved the International Development Association (IDA) credit for an environmental project to reduce the amount of toxins in the regional water supply of the country of Blueland. This project will require the construction of a relatively new technology -- a subsurface reverse osmosis water purification system (ROWPS).

II. Blueland is a small country with approximately 1 million people. The limited underground fresh water supply has rising levels of dangerous toxins because of environmental contamination, dumping and other industrial abuses. The country relies heavily on expensive bottled water, rainwater collection and distillation, and toxic subsurface water.

III. The Project has been approved for $20 million. The Project Implementation Unit (PIU) has been established in an old apartment that was rented by the Ministry of Ecology. The PIU does not have any equipment or other office fixtures. Moreover, within the Ministry of Ecology there is no one deemed technically qualified to run a project of this magnitude. Accordingly, the Ministry has opted to hire an outside consultant, Mr. Kenneth Luci, to be the project Director. Mr. Luci was hired upon the strong recommendation of the Deputy Minister of Ecology, based on the strength of his CV and known reputation in the community for excellent work.
**Events**

**IV.** After Mr. Luci is hired, he sets off to hire a staff for the PIU. Mr. Luci drafts a job description for the financial officer that requires, among other technical qualifications, specific training in languages. The notice for the opening is posted in the local paper.

**V.** Mr. Luci receives only three applications for the job. Mr. Luci and a representative of the Ministry of Ecology, Mario D’Argent, conduct the interviews. Mr. Luci rates Mr. Jones as the highest candidate because, in addition to his technical expertise, Mr. Luci indicates that he is aware of his reputation in the community as an excellent financial officer. Mr. Jones also is one of the few candidates that possesses the necessary language skills for the task. Mr. Jones is ultimately hired by the PIU.

**VI.** Mr. Luci’s other initial task is to get the PIU office in order. Mr. Luci asks Mr. Jones to contact office supply companies and request quotes for various office supplies to fully equip the office. Quotes begin to arrive and Mr. Luci inspects the quotes and directs the purchase of a number of office computers, workstations, and other essential products. Additionally, Mr. Luci has a telephone installed in the office, including a private line (both voice and fax) for his office, as well as shared voice and fax lines for the secretary (supplied by the Ministry of Ecology), Financial Officer and Research Officer (supplied by the Ministry of Ecology). The office supplies arrive by rental truck from the Villageville Engineering Support Company, 1414 Electric Ave, Villageville, Blueland, 02-334-3428.

**VII.** Mr. Jones indicates that he will maintain the inventory of the office equipment. Upon arrival of the office supplies, Mr. Jones inspects the equipment and prepares a payment for the Villageville Engineering Support Company. The secretary of the PIU notices that in addition to the desktop computers, there are 4 high speed 733mhz laptop computers.

**VIII.** The World Bank Task Manager, Mr. Enzo Famel, has indicated that he will be arriving on the morning of December 1 at the local airport to discuss implementation of the project. Mr. Famel obviously wants to ensure that the project is conducted in compliance with the rules of the Bank. However, Mr. Famel, a long time Bank Task Manager, is aware that he has to be flexible in this developing country in order to ensure success of the project. Mr. Luci indicates that he will arrange a car for Mr. Famel upon arrival. The cars are arranged for Mr. Famel from: Hire Agency, 223 Pinot Ave, Villageville, Blueland Tel: 02-334-3423.

**IX.** After Mr. Famel arrives at the project headquarters, he meets privately with Mr. Luci to discuss the forthcoming project. Mr. Luci details a very aggressive plan to bring on a number of consultants to develop the implementation strategy for the subsequent hard engineering work that will be required to filter the contaminated water. Mr. Luci explains to Mr. Famel that he is very excited about the upcoming project’s chances for
Mr. Luci treats Mr. Famel to a tour of the area in Mr. Luci’s Land Rover and specifically points out areas that may serve as prime locations for the engineering work.

The first consultant that Mr. Luci proposes to hire is Susan Chung. Susan’s contract is sole-sourced because its total value is $US 96,700, which is less than the $100,000 threshold as per the Credit Agreement. Upon approval from Mario and a no-objection from Enzo, Susan signs the contract and faxes it back to the PIU. She is then paid 20% of the contract price to her bank account no. 512-192-62 at 1ˢᵗ National Blueland Bank.

The second consultant that Mr. Luci proposes is Mr. Donald Hardwire, an engineering consultant, who had previously performed work under World Bank-financed projects in Villageville. Upon approval of Mario and a no-objection from Enzo, Donald is hired. He is an experienced environmental engineer with in-depth experience, specifically in Blueland environmental problems. Mr. Hardwire received a $98,000 contract. His contract permits his company, Hardwire and Associates, 221 Pinot Ave, Villageville, Blueland, tel 022-334-2234, to continue to do business.

Two months after the signing of Mr. Hardwire’s contract, Mr. Luci rents a car from Hire Agency on behalf of the project to visit some potential project sites. Subsequent to renting the car, Mr. Luci proceeds to submit an expense report to Mr. Jones. Mr. Jones prepares a Bank draft for Hire Agency in the amount of $350 for the ten days that Mr. Luci rented the car. Hire Agency deposits the check into account number 512-192-62 at 1ˢᵗ National Blueland Bank. Mr. Luci also arranges for cars through the same agency for all official visitors to the PIU.

One year in the project, things are not going well. The project has yet to find a suitable site for the project, notwithstanding numerous reports and surveys conducted by Mr. Hardwire and Ms. Chung. In addition, Ms. Chung and Mr. Hardwire have spent a considerable amount of time traveling on project related business to various conferences that discuss environmental technologies. Moreover, the PIU expenses have been far more than anticipated. Two of the expensive $10,000 laptop computers had to be replaced after Mr. Luci and Mr. Jones indicated that the computers were not working properly. Mr. Jones disposed of both computers. Moreover, orders of disposable supplies (e.g., paper etc.) have been trippled due to enormous amounts of work by Mr. Luci and Mr. Jones.

On a supervisory mission, Mr. Famel inquired about the tender and bidding process for the construction of the ROWPS. Mr. Luci explained that the letters of invitations had gone out with the bid evaluation criteria (Mr. Famel had approved the letters of invitation and evaluation criteria). Mr. Famel saw an evaluation criteria on Mr. Luci’s desk and he was unsure whether this evaluation criteria was the same that was attached to the letters of invitation. Nevertheless, because of other pressing concerns, Mr. Famel did not follow up on that issue nor did he make a copy of that evaluation criteria.
XV. Last month, after all the bids were in and opened, the evaluation committee, made up of Mario, Mr. Lucci and Mr. Hardwire, conducted a bid evaluation of all the contracts. The winning bidder was a company called Simmons and McLeash.

XVI. Last week, the Corruption and Fraud Investigation Unit (CFIU) received an anonymous complaint over their complaint line that Mr. Lucci is illegally profiting from the PIU operation. The Blueland Country Director confidentially notified the Prime Minister of the allegation and stated that the CFIU would be conducting an inquiry of the project. The Prime Minister has pledged the fullest cooperation. The Prime Minister was elected as the leader of Blueland, in part, on an anti-corruption platform. Nervous that the CFIU will find information, the Prime Minister has ordered his own inquiry.

XVII. You are part of the investigative team assigned by the Prime Minister. He wants a quick assessment if there is any merit to the allegations and proposed recommendations on how this can be prevented in the future.
Characters

**World Bank**

Enzo Famel  
Task Team Leader

Ministry of Ecology

Cameron Greentree  
Minister
Mario D’Argent  
Deputy Minister

Project Implementation Unit (PIU)

Kenneth Luci  
Project Manager
Tom Jones  
Financial Officer
Joanna Cash  
Research Officer
Murph Murphy  
Project Secretary

Banks

1st National Blueland
EZ Credit

Consultants
Susan Chung
Donald Hardwire
Short Biographies

Enzo Famel

Enzo has been with the World Bank for 25 years and is the task manager of the Blueland Environmental Project. He is nearing retirement and will terminate his employment with the Bank before the project is completed. Although Enzo will not see the project to completion he wants the project to go as smoothly as possible so as to maintain his reputation in the development community.

Elisa Greentree

Elisa became the Minister of Ecology in 1996. Elisa is a well-respected member of the government and has put into action many policies to improve the environment of Blueland.

Mario D’Argent

Mario became the Deputy Minister in 1996. Mario has exceptional academic credentials. Although he works for the government, his real passions in life are research writing and surfing. One of Mario’s responsibilities is to supervise Kenneth Luci and to sign off on the contracts that Kenneth oversees.

Kenneth Luci

Mr. Luci is hired on a full time three-year contract at $99,000 per year net of taxes. Mr. Kenneth Luci and his wife Susan are the principles of a small environmental firm named Luci and Associates, 433 Point Rd, Villageville, Blueland, tel. 02-334-3423. While Kenneth owns his own business he also speculates on the stock market. There is no clause in his contract that permits him to engage in outside business activity.

Mr. Luci is widely known in Blueland and is regarded as technically competent to conduct this project. In fact, Kenneth has worked for Elisa in the past. In addition to having previously worked together, Elisa and Kenneth also share many mutual friends. Mr. Luci has previously performed work in a joint venture with another Villageville firm, utilizing World Bank managed Trust Funds doing Environmental Impact Statements. The previous task manager of that work, Mr. John Alderman, found the work of the Luci/McLeash joint venture to be above average, and accordingly, the Bank favorably endorsed Mr. Luci being placed as the Director of the PIU.
Joanna Cash

Joanna is a 17-year employee of the Ministry of Ecology and has been assigned to the Project Implementation Unit. Joanna plans to retire after 20 years of service at the Ministry.

Donald Hardwire

Donald is an environmental engineer with a Master’s degree from MIT. He has worked in Villageville for the past 23 years and has been associated with virtually all of the significant engineering projects in Villageville. He is the principal of the firm of Hardwire and Associates.

Tom Jones

Mr. Jones previously worked for a number of environmental consulting firms in Villageville, Blueland. Mr. Jones is a Chartered Accountant and has detailed knowledge of accounting systems and their weaknesses. Furthermore, Mr. Jones is a hard worker who often works overtime and rarely takes vacation.

Murph Murphy

Murph is a recent university graduate who is working at the PIU before he leaves to attend graduate school. He is looking to use his time at the PIU to gain experience and to develop contacts to write recommendations for his graduate school applications.