Republic of Guatemala

A Marine Ecosystem Protection Project

Redacted Report

February 21, 2012
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Executive Summary

This report presents the results of an administrative inquiry (the investigation) by the World Bank Group’s (Bank’s) Integrity Vice Presidency (INT) into allegations of misuse of Project funds and failure to account for and reconcile expended funds under a Bank-financed marine ecosystem protection project (the Project) in the Republic of Guatemala.

In June 2007, the Bank received a complaint alleging that a Project staff member was spending excessive funds on travel and had conflicts of interest with certain vendors and Project-fund recipients. In addition, in February 2009, INT met with a Guatemalan public official, who shared with INT concerns regarding the Project’s national administration, fiduciary arrangements, implementation, and documentary inconsistencies that had been identified relating to Guatemala’s executed portion of the Project.

INT intended to conduct a postmortem forensic audit of the Project Coordination Unit’s (PCU) expenditures. However, INT was unable to gain access to the necessary supporting documents and records. This limited the scope of INT’s investigation.

The evidence gathered by INT shows that: (i) some expenditures, such as payments for discretionary “meeting expenses,” or as reimbursement for donations made to various charitable organizations or for the purchase of services and supplies from vendors appeared questionable in terms of their eligibility for project financing; (ii) more than US$15,000 was paid to a Guatemalan public official involved in project implementation, who was also a paid governmental employee, for honoraria and consulting services; and (iii) more than US$7,000 had been paid to a vendor owned by a project staff member for supplies and services.
Background

In 2001, the World Bank’s Board of Executive Directors approved a US$11 million Global Environment Facility (GEF) grant involving the Republic of Guatemala, Belize, the Republic of Honduras, the United Mexican States (the Participating Countries) to finance a marine ecosystem protection project (the Project).

The objectives of the Project were to enhance protection of a marine ecosystem as well as to assist the Participating Countries in strengthening and coordinating their national policies, regulations and institutional arrangements for the conservation and sustainable use of a barrier reef system shared by the Countries. A Project Coordination Unit (PCU) was established to manage the Project's operations and finances. Prior to the Project closing date in 2007, a complaint was received alleging that a Project staff member was spending excessive funds on travel and had conflicts of interest with certain vendors and Project-fund recipients.

INT initiated a preliminary inquiry into the execution of the Project at the PCU. INT found red flags indicating that expenditures were not reported in a timely manner, were not sufficiently supported, were improper, and funds may have been misused. INT found evidence that the PCU’s financial management and internal controls had functioned ineffectively for many years (which supports the unsatisfactory rating by the World Bank’s Latin American and Caribbean Region (LCR) and which runs contrary to reports by the Project’s external auditor). In addition, INT found evidence indicating possible conflicts of interest involving a PCU staff member and a Project vendor, as was alleged. Based on these findings, INT intended to conduct a postmortem forensic audit of the PCU’s expenditures. However, INT was unable to gain access to the necessary supporting documents and records. This limited the scope of INT’s investigation.

Findings

INT found red flags of potential misuse of funds during its review of the Project’s Statement of Expenditures (SOEs) and Special Account replenishment requests. For example, INT found that the SOEs contained errors and duplications, were incomplete, and often misreported the timing and nature of Project expenditures. Often, the SOEs were not prepared or submitted in a timely manner and were disorganized, which made the Bank's on-going efforts to reconcile, audit, and verify receipts and expenditures difficult. For example, the Special Account reconciliations, which were provided with each replenishment request that reconciled expenditures to Special Account fund balances, were often inaccurate and misleading. The reconciliations submitted from 2005 until the Project’s final accounting in late 2007 appeared to have been prepared in such a manner as to disguise unaccounted funds and expenditures accumulated during that period.

The PCU also submitted reimbursement requests for expenditures previously reimbursed or previously denied as ineligible or duplicative. As part of its final accounting of spent funds at Project closure, the PCU resubmitted these expenditures again along with other denied or ineligible reimbursement claims.

In addition, by the time of the Project’s closing, the Bank had identified over US$200,000 in Project funds that were missing and that could not be readily accounted for by
the PCU. It took months before the PCU finally accounted for these funds. Furthermore, the
errors found by INT in the PCU’s accounting, such as previously denied or duplicative claims,
and previously unreported expenditures from 2005 and 2006, call its accounting into question.
These and other INT findings raise the possibility that the accounts and records as maintained
while the Project was ongoing, did not always accurately reflect the use of Special Account
funds.

INT conducted a limited forensic analysis of the Project’s expenditures submitted on the
SOEs and those identified by the PCU’s replenishment requests.\footnote{Supporting documentation, except for a very small number of expenditures, was not submitted to the Bank with replenishment requests, but was retained by the PCU.} A significant amount of the
funds were paid to a small number of vendors or to PCU staff. Combined, two Project staff
member were paid over US$1 million, including large amounts of cash. These monies were paid
as expense reimbursements and travel advances, and were distributed to vendors and others for
travel, per diem, services and supplies, and other expenditures. Some expenditures, such as
payments for discretionary “meeting expenses,” or reimbursement for donations made to various
charitable organizations, or purchases of services and supplies from vendors, appeared
questionable in terms of their eligibility for project funding. In addition, INT found that more
than US$15,000 was paid to a paid governmental employee, for honoraria and consulting
services. INT also confirmed that more than US$7,000 had been paid to a vendor owned by a
Project staff member for supplies and services, as was alleged by the complainant.

The Project's accounts and financial statements were audited annually by a professional
auditing firm. Each year, the auditing firm gave the accounts clean opinions and reported that
the Project had maintained adequate and sufficient documentation to fully support the dollar
value and the eligibility of its expenditures, and that the Project's costs were being properly
classified to appropriate budgeted categories. LCR conducted a detailed review and audit of
Project expenditures disbursed between November 2006 and May 2007 and found numerous
instances of unsupported and unaccounted for expenditures, although the PCU was eventually
able to justify and support all questionable expenses. Consistent with INT’s investigative
findings, LCR's specific findings conflicted with the auditing firm’s clean opinions and detailed
a systemic, possibly long-lasting, and poorly-run FM system that LCR ultimately assessed as
unsatisfactory under Bank standards.