Socialist Republic of Vietnam
Mongolia

Vietnam Second Payment System and Bank Modernization Project
Mongolia Economic Capacity Building Technical Assistance Project
Mongolia Governance Assistance Project

REDACTED REPORT

February 21, 2012
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The purpose of the investigation underlying this Report is to allow the Bank to determine if its own rules have been violated. This Report is being shared to ensure that its recipients are aware of the results of the INT investigation. However, in view of the specific and limited purpose of the investigation underlying this Report, this Report should not be used as the sole basis for initiating any administrative, criminal, or civil proceedings. Moreover, this Report should not be cited or referred to in the course of any investigation, in any investigation reports, or in any administrative, civil, or criminal proceedings.

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Executive Summary

Company A is a management consulting firm that, since 2004, has received over $4 million in World Bank (Bank) financed contracts across all regions. In 2006-2007, Company A received at least three Bank-financed contracts in the Bank’s East Asia and Pacific Region (EAP), totaling over US$2,000,000, under the Second Vietnam Payment System and Bank Modernization Project (PSBM-2), the Mongolia Economic Capacity Building Technical Assistance Project (ECTAC), and the Mongolia Governance Assistance Project (GAP).

In June 2007, the Bank’s Integrity Vice Presidency (INT) received an anonymous complaint regarding certain PSBM-2 procurements. INT’s preliminary review found that Company A was involved in these procurements, and that Company A was the subject of prior allegations of misrepresentation reported to INT. In light of the risks presented by these past and current allegations, INT initiated an inspection of Company A’s records regarding the three contracts that were currently active in the Region at the time.

INT’s inspection found evidence indicating that Company A’s registered address and the address listed on its business correspondence was a mailbox at a retail postal store. Company A did not have a permanent office. The inspection also found evidence indicating that the consultants offered in Company A’s technical proposals regularly differed, in both identity and contract duration, from the consultants who actually performed the work under the contracts. Moreover, the inspection revealed that Company A did not maintain any type of general ledger accounting system, nor did it have adequate accounting controls, maintain adequate supporting documentation, or have any accounting and document retention policies related to the inspected contracts.

Given these findings, INT conducted a full administrative inquiry (the investigation) of Company A’s activities under the three inspected contracts, which found evidence indicating that Company A engaged in false claims and improper consultant substitution. Specifically:

- Evidence indicates that Company A’s PSBM-2, ECTAC, and GAP technical proposals misrepresented and/or misstated Company A’s prior work experience;
- Evidence indicates that, under its PSBM-2 contract, Company A misrepresented that it had added additional staff to its project team. In fact, evidence indicates that it had engaged in improper staff substitution and replaced its original staff with other personnel of unknown skills and qualifications without obtaining required approvals by the Borrower and the Bank;
- Evidence indicates that, in its ECTAC contract, Company A replaced several Key Personnel and misrepresented the identity of one of its Key Personnel by naming him in the contract when, by that time, Company A already had replaced him with another consultant; and
- Evidence indicates that, in its ECTAC contract, Company A overstated the man-months required of its international subconsultants and thereby overstated the value of its contract by approximately US$300,000. It then apparently used these funds to finance a subcontract with a local company that, contrary to Company A’s contractual requirements, was not approved in advance by the Borrower.
Background and Methodology

Company A is a management consulting firm incorporated in March 2004 by Mr. M.

According to World Bank (Bank) database records, Company A has received over US$4 million in prior review Bank-financed contracts, including multiple contracts in countries in Africa and Asia.

In June 2007, the Bank’s Integrity Vice Presidency (INT) received an anonymous complaint alleging corruption in certain procurements conducted under the Second Vietnam Payment System and Bank Modernization Project (PSBM-2). INT’s preliminary review found that Company A was involved in these procurements, and that Company A was already the subject of prior reports of misrepresentation. In light of this information, and the fact that Company A had ongoing Bank-financed contracts in the Bank’s East Asia and Pacific (EAP) Region, INT conducted an inspection of Company A’s records regarding three active International Development Association (IDA) financed contracts awarded to Company A in 2006-2007 in Vietnam and Mongolia worth approximately US$2 million combined. The details of the inspected projects and contracts are as follows:

1. **PSBM-2**: PSBM-2 is a payment system and bank modernization project administered by the State Bank of Vietnam and financed by a US$105 million IDA credit. The project became effective in December 2005, and closed on June 30, 2010. Company A submitted a proposal for a contract to provide consulting services to the Vietnamese Bank for Agriculture and Rural Development (VBARD) under the PSBM-2. In May 2006, Company A signed a contract worth approximately US$500,000 with VBARD (the PSBM-2 contract).

2. **ECTAC**: The Mongolia Economic Capacity Building Technical Assistance Project (ECTAC) is a public sector management reform project administered by the Ministry of Finance and financed by a US$8.2 million IDA credit. The project became effective in February 2004 and closed on September 30, 2009. Company A submitted technical and financial proposals for a contract to provide advisory services to the Ministry (the ECTAC contract). In December 2006, Company A signed a contract worth approximately US$1.4 million with the Ministry.

3. **GAP**: The Mongolia Governance Assistance Project (GAP) also is a public sector management reform project that is administered by the Ministry of Finance and financed by a US$15.3 million IDA credit. The project became effective in July 2006 and is scheduled to close on January 15, 2012. Company A submitted technical and financial proposals for a contract to provide advisory services related to the Government of Mongolia (the GAP contract). In April 2007, Company A signed a contract worth approximately US$150,000 with the Mongolia Government for this work.

As detailed below, INT’s inspection found significant indicators of fraudulent activity. In response to these indicators, INT conducted a full administrative inquiry (the investigation) into Company A’s PSBM-2, ECTAC, and GAP contracts.
Findings

1. INT’s Inspection Found Evidence that Company A Is a “Mailbox Company” Whose Records Contained Significant Indicators of Fraudulent Activity.

In April 2008, INT inspected Company A’s records regarding the PSBM-2, ECTAC, and GAP contracts. INT was unable to inspect Company A’s business premises because Company A did not have permanent office space — Company A’s registered and business correspondence address (used on its PSBM-2, ECTAC, and GAP technical proposals and PSBM-2 contract) was a mailbox at a retail postal store.¹

INT also was unable to verify the number of permanent staff employed by Company A because Company A did not withhold taxes and other paycheck deductions, nor did it provide any type of optional employment benefits (such as health insurance or retirement plans) for its employees. INT instead found evidence that Company A maintained a database of over 3,000 consultant names from which it selected individuals for work on specific projects, and that the majority of staff members working on the three contracts were not permanent employees of Company A, but rather temporary subconsultants. Moreover, as detailed below, INT found evidence that the team of external consultants presented in Company A’s technical proposals and contracts often was not the same team that actually performed the work under the contracts, and evidence that in one case Company A overstated the amount of work required of its international subconsultants to generate funds to finance an undisclosed and unapproved subcontract.

INT further found evidence that, in relation to the three contracts, Company A maintained supporting documentation and accounting controls that appeared not to comply with its contractual requirements. Company A did not maintain any type of general ledger accounting system for the recording of financial transactions, and it did not have any policies—formal or informal—regarding the maintenance of documentation supporting financial transactions, such as receipts or descriptions of work performed. Company A staff and external consultants were not required to maintain time sheets and external consultants were not required to submit invoices. All of these failures appeared contrary to Company A’s obligations under paragraph 3.8 of the General Conditions of its PSBM-2, ECTAC, and GAP contracts, which required Company A to maintain “accurate and systematic accounts and records in respect of the Services hereunder, in accordance with internationally accepted accounting principles and in such form and detail as will clearly identify all relevant time charges and costs, and the bases thereof….”

While Company A provided INT investigators with some documentation in electronic form during the course of the inspection, it did not provide any original documents, and the documentation that was provided was incomplete and inconsistent. Despite repeated requests, Company A did not provide access to key accounting personnel or external accountants.

Given the prevalence of these indicators of fraud, INT investigators conducted a detailed review of Company A’s technical proposals and contract implementation documents to verify Company A’s claims of past experience, involved personnel, and required man-hours. As detailed below, these reviews found evidence indicating that Company A made numerous misrepresentations when competing for and executing the three investigated contracts.

¹ Company A’s ECTAC and GAP contracts did not state its address.
2. Evidence Indicates that Company A Falsified and Misrepresented its Experience in its PSBM-2, ECTAC, and GAP Technical Proposals.

Company A’s technical proposals for the three contracts included more than 35 references to work on past Bank-financed projects that Company A claimed it, as a company, had performed through members of its staff (and not associated consultants). INT found evidence indicating that over 25 of these references included falsifications or misrepresentations.

A. PSBM-2: The PSBM-2 Request for Proposals (RFP) required firms to provide “information on each assignment for which your firm, and each associate for this assignment, was legally contracted either individually as a corporate entity or as one of the major companies within an association, for carrying out consulting services similar to the ones requested under this assignment.” In response, Company A submitted a proposal with at least 11 references to Bank-financed contracts, in addition to several references to other projects. In the evaluation, Company A was awarded a high score for its claimed experience. However, INT found evidence indicating that 10 of Company A’s references to Bank-financed contracts were false or misleading. Indeed, INT could only confirm that Company A had received and executed five of these contracts as a corporate entity. The details of how these references were misleading are as follows:

Contract References with Overstated Values. In all five of Company A’s references to confirmed Bank-financed contracts, INT found evidence indicating that Company A overstated the value of the contract in its technical proposal by an average of approximately 175%. When INT asked Mr. M to explain these contract value discrepancies, Mr. M admitted that the “value of services” as represented in the references was incorrect, and stated that Company A would correct its reference database to reflect accurately the value.

Contract Reference that Claimed a US$37,000 Subcontract as a US$2.9 Million Prime Contract. In one instance, Company A submitted a reference to a project for which evidence indicates that it was only a subcontractor. However, Company A omitted any mention of the prime consultant or the fact that it was a subcontractor. Moreover, Company A overstated—by more than 75 times over—the value of its services from an approximately US$37,000 subcontract to a purported US$2.9 million contract. (Company A’s reference even overstated the value of the prime contract, which the Bank’s databases state was approximately US$500,000.) When INT investigators asked Mr. M about this discrepancy, he explained that the US$2.9 million figure was not Company A’s portion of the contract, or even the prime contract, but rather Company A’s estimate of the total value of the project. Mr. M stated that he was uncertain how the US$2.9 million figure was derived, but posited that it may have been a calculation based upon the number of required man-months, multiplied by an average monthly rate of US$10,000, plus the value of the prime contract.

Contract References that Adopted the Experience of Another. In two cases, evidence indicates that Company A misrepresented the experience of one of its purported consultants as its own. The references indicated that Company A had contracts in two separate countries, totaling over US$1.5 million, for which its staff member was the team leader. However, Mr. M admitted to INT investigators that Company A itself was not involved in these contracts, and that the named “staff member” (who actually was a Company A freelance subconsultant) had received and/or participated in these contracts individually, not in association with Company A. Mr. M further admitted that other information in the reference, such as the number of involved staff and the duration of the assignment, were “mistakes.” INT investigators also contacted the named consultant. The consultant added that, although he was listed as a member of Company A’s team in its PSBM-2 technical proposal and contract,

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2 During INT’s inspection, Company A provided INT investigators with a copy of its subcontract.
he was unaware that Company A had included his name in the contract and he never worked on the PSBM-2 contract with Company A.

**Misrepresented Experience.** In one PSBM-2 technical proposal reference, Company A stated that it had received an approximately US$500,000 Bank-financed contract to provide national procurement management and support services to a country for a one year period. However, Bank records document no such contract award to Company A. (The individual whom Company A listed as its project manager in the reference told INT investigators that he did not participate in the project, though some Bank records suggest that he was at least initially selected for the contract.) As with the above-discussed references, Mr. M admitted to INT investigators that Company A itself was not involved in the contracts; that the named “staff member” (who actually was a Company A freelance subconsultant) had received and/or participated in the contract individually, not in association with Company A; and that other information in the reference, such as the number of staff involved and the duration of the assignment, were “mistakes.”

**Experience Claimed for Contract Awarded, but Never Executed.** In another instance, Company A’s PSBM-2 technical proposal claimed that Company A had an ongoing Bank-financed contract worth approximately US$650,000 to provide consulting services where Company A’s senior staff was leading a team of six experts for over 20 man-months. However, the Bank had no record of Company A’s purported contract. Mr. M told INT investigators that the contract had been awarded to Company A, but the Borrower cancelled it and the contract was never implemented by Company A. These statements are contrary to Company A’s technical proposal’s representation of ongoing work.

**B. ECTAC:** The ECTAC RFP required firms to provide “information on each assignment for which your firm/entity, either individually as a corporate entity or as one of the major companies within an association, was legally contracted.” In response, Company A submitted at least 18 references to Bank-financed contracts, in addition to several references to other projects. In the evaluation, Company A received a high score for its experience. However, as with its PSBM-2 technical proposal, INT found evidence that at least 15 of Company A’s references to Bank-financed contracts were false or misleading. INT could only confirm that Company A had received and executed six of these contracts as a corporate entity. The details of how these references were misleading are as follows:

**Contract References with Overstated Values.** In three of Company A’s six confirmed references to Bank-financed contracts, INT found evidence indicating that Company A significantly overstated the value of its contract in its technical proposal by an average of approximately 295%. When INT asked Mr. M about the discrepancies in value, he admitted that the “value of services” as represented in the three references was incorrect.

**Contract References that Adopted the Experience of Another.** In 11 other cases, the World Bank had no record of Company A or a Company A associate receiving the contracts listed in its ECTAC technical proposal. According to the contract references, some of the contracts even pre-dated the existence of Company A. When interviewed by INT investigators, Mr. M admitted that Company A had no role in the assignments. Mr. M claimed that, in some of the references, the names of the assignments and descriptions of services were taken from the *curricula vitae* (CVs) of its subconsultants. However, none of these subconsultants was listed in Company A’s ECTAC technical proposal or contract; they were not part of Company A’s team on the ECTAC assignment; and INT confirmed that none of them actually worked on the ECTAC contract. Moreover, Mr. M admitted that Company A could not verify any of the other information in the references, such as the value of services or the number of staff.
Company A Repeated its Misleading US$37,000 Subcontract Reference. Company A included the same misleading reference to its US$37,000 subcontract in its ECTAC technical proposal.

C. GAP: Similarly to the PSBM-2 and ECTAC RFPs, the GAP RFP required firms to provide “information on each assignment for which your firm, and each associate for this assignment, was legally contracted either individually as a corporate entity or as one of the major companies within an association, for carrying out consulting services similar to the ones requested under this assignment.” In response, Company A submitted at least eight references to Bank-financed contracts, in addition to several references to other projects. In the evaluation, Company A received a high score for its experience. However, INT could only confirm that Company A had received and executed five of its referenced contracts as a corporate entity. Moreover, consistent with Company A’s other misleading technical proposal contract references, INT found evidence that four of these references misrepresented Company A’s experience.

Contract Reference with an Overstated Value. INT found evidence indicating that Company A overstated the value of a reference to one Bank-financed contract from approximately US$75,000 to approximately US$300,000, an increase of about 300%.

Contract References that Adopted the Experience of Another or Cited Contracts Not Won by Company A. The Bank has no record that Company A, or a Company A associate, received two of the contracts referenced in Company A’s GAP technical proposal. When interviewed by INT investigators, Mr. M admitted that Company A had no role in the assignments. Regarding one of these contracts, Mr. M stated that Company A took the name and description of services from the CV of one of its subconsultants. This subconsultant was not listed in Company A’s GAP technical proposal or contract; was not part of Company A’s GAP assignment team; and did not work on the GAP contract. Regarding the other contract, Mr. M stated that Company A had competed for and won the contract, but that negotiations broke down and Company A never signed or implemented it.

Company A Repeated its Misleading US$37,000 Subcontract Reference. Company A also included the same misleading reference to its subcontract that it included in its PSBM-2 and ECTAC technical proposals. Unlike its PSBM-2 and ECTAC technical proposals, Company A did mention the prime consultant in its GAP technical proposal’s contract reference. But Company A misleadingly listed the prime consultant as an associated consultant—not as the prime consultant to which it subcontracted—and Company A still used the same significantly overstated contract value of approximately US$2.9 million for its services.

3. Under its PSBM-2 Contract, Evidence Indicates that Company A Misrepresented that it Had Added Additional Staff to Its Project Team. In Fact, Evidence Indicates that it Had Engaged in Improper Staff Substitution and Replaced its Original Staff with Other Personnel of Unknown Skills and Qualifications without Obtaining Required Approvals by the Borrower and the Bank.

The tender evaluation criteria for PSBM-2 gave substantial weight—50 percent—to the qualifications and competence of proposed staff. Company A’s PSBM-2 technical proposal included several international Key Personnel, including Company A’s team leader, procurement consultant, and IT consultant. Proposal evaluation documents stated that, of the four companies that submitted proposals, Company A’s proposed team leader, IT consultant, and procurement consultant received high average scores. Overall, Company A’s proposed staff received a high technical score. When Company A signed its PSBM-2 contract, it again named these Key Personnel as part of its project team.

However, INT’s investigation found evidence indicating that Company A replaced four of these Key Personnel and misrepresented those replacements as being additions of further project staff. According to Company A documents, four of Company A’s six Key Personnel never entered into subcontracts with Company A or ever
received payment for work done under the project. This strongly indicates that they never worked on the project. Indeed, one of the staff members proposed by Company A told INT investigators that Company A had informed him of his inclusion in the proposal but not in PSBM-2 contract.

Rather than use the Key Personnel named in its technical proposal and contract, evidence indicates that Company A instead substituted other consultants who performed the same roles. Only two of the international consultants actually supplied by Company A were listed in the contract. As a result, the project team detailed in Company A’s technical proposal and the contract signed four months later bore little resemblance to the project team actually delivered by Company A (as reflected in its payment records).

According to available evidence, Company A never informed VBARD that it was substituting any members of its project team. Instead, in a letter to VBARD—written several months after Company A signed its contract—Mr. M mischaracterized Company A’s personnel substitutions as personnel additions. Mr. M then provided the details of the substitute staff.

Company A’s PSBM-2 contract provided that “[e]xcept as the Client may otherwise agree, no changes shall be made in the Key Personnel.” Under the applicable May 2004 Guidelines: Selection and Employment of Consultants by World Bank Borrowers, the World Bank also had to provide its “no objection” to the substitution of Key Personnel. Yet in this case, neither approval was given because Company A concealed from both the Borrower and the Bank that it had made personnel substitutions. Moreover, VBARD never realized that Company A’s four replaced Key Personnel did not work on the PSBM-2. VBARD representatives told World Bank staff that, to their knowledge, all of Company A’s Key Personnel had worked on the assignment, and there had been no substitutions, but rather only the addition of further personnel.

4. In its ECTAC Contract, Evidence Indicates that Company A Substituted Several Key Personnel and Misrepresented the Identity of One of its Key Personnel by Naming Him in the Contract When, by that Time, Company A Already Had Replaced Him with Another Consultant.

The ECTAC contract required the provision of advisory services in implementing public expenditure management reforms. As in PSBM-2, the ECTAC proposal evaluation criteria gave substantial weight—50 percent—to the qualifications and competence of proposed staff. Company A’s ECTAC contract included several international Key Personnel. According to proposal evaluation documents, Company A’s proposed staff received a high technical score. When Company A signed its ECTAC contract, it again named these Key Personnel as part of its project team.

However, INT’s investigation found evidence that two of Company A’s Key Personnel never worked on the contract because they never entered into subcontracts with Company A, nor did they ever receive payment for work under the project. Moreover, two other Key Personnel left the assignment prior to the completion of their work.

Further, INT found evidence indicating that Company A concealed one of these substitutions in its ECTAC contract. On a specific day, Company A signed a subcontract with Mr. B for a specific position. Mr. B therefore was a substitution for Mr. C, who was listed as performing that role in Company A’s technical proposal and had fallen ill. Yet the next day, Company A signed its ECTAC contract, which still listed Mr. C as a member of Company A’s Key Personnel. This was a misrepresentation, because by that date Company A knew that Mr. B, not Mr. C, was serving as this Key Personnel member.

Evidence indicates that Company A’s misrepresentation of Mr. C’s involvement was not its only misrepresentation in its ECTAC contract. As detailed below, evidence indicates that Company A also made a
broader misrepresentation regarding the time required of its international consultants and the subconsultants involved in its ECTAC project work.

5. Evidence Indicates that, in its ECTAC Contract, Company A Overstated the Man-Months Required of its International Subconsultants in Order to Finance a Subcontract with an Undisclosed, Unapproved Local Subconsultant.

Company A’s ECTAC contract was a lump sum contract paid in installments upon the Ministry of Finance’s approval of certain reports from Company A. The lump sum was calculated by multiplying the number of man-months required from each involved Company A team member by their monthly fee. However, Company A’s ECTAC contract provided for a substantially greater number of international consultant man-months than Company A’s subcontracts with those same or substituted international consultants.

Despite listing Mr. C and Mr. D in its technical proposal and contract, evidence indicates that Company A never subcontracted with them regarding the ECTAC assignment. Moreover, evidence indicates that Company A saved approximately US$300,000 by shortening its international subconsultants’ work periods.3

Evidence indicates that Company A used these funds to finance another, undisclosed subcontract with a local consultant. According to both Company A records and Mr. M, approximately one week before signing its ECTAC contract, Company A entered into an approximately US$300,000 subcontract with a local firm, Company D, after Company D approached Company A and offered to provide support services to it. Mr. M stated that Company A subcontracted with Company D for translation and logistics support, and that Company A funded the Company D subcontract by reducing the international staff inputs listed in the ECTAC contract and diverting the funds to Company D. This is consistent with the approximately US$300,000 generated by the reduction of the international consultants’ man-months.

Company A’s subcontract with Company D was not mentioned in its ECTAC technical proposal, nor does it appear in Company A’s ECTAC contract. According to Mr. M, Company A did not disclose the subcontract to the Ministry of Finance because Company A entered into it after the evaluation of the proposals, and disclosing it would have delayed the procurement process. The only evidence provided to INT that Company A informed the Ministry of its Company D subcontract is a letter to the Ministry in which Company A offered to reduce the amount of its financial proposal and requested authority to use local partners to reduce the contract’s cost while providing higher quality. INT found no evidence that the Ministry approved this request or otherwise authorized the use of local partners. This is contrary to Clause 3.5(a) of Company A’s ECTAC contract, which required prior Client approval of any and all subcontracts entered into by Company A for the performance of any part of its work under the contract.

An ECTAC project manager subsequently wrote to Company A expressing a lack of prior knowledge of Company A’s contract personnel modifications and dissatisfaction with Company A’s performance.

6. Debarment

The World Bank’s Sanctions Board debarred Company A for a period of four years for having engaged in fraudulent practices related to the PSBM-2 project in Vietnam and the ECTAC and GAP projects in Mongolia.

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3 Company A also subcontracted with these consultants at lower prices than those listed in the ECTAC proposal and contract.