Republic of Indonesia

Water Sector Project A

Redacted Report

March 25, 2011
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Executive Summary

This Report provides the findings of an administrative fact-finding inquiry (the investigation) by the World Bank Group’s (Bank’s) Integrity Vice Presidency (INT) into allegations of fraudulent and corrupt practices in the execution of a consultant services contract awarded to Company A under a water sector project in the Republic of Indonesia.

INT investigated allegations that Company A was submitting inflated invoices supported by falsified receipts for reimbursable items on the Contract to generate funds for payment to government officials.

INT’s investigation found:

1. Evidence indicating that Company A engaged in a false billing scheme since the beginning of the Contract’s execution by systematically fabricating, falsifying and inflating the amounts of the receipts in support of invoices it submitted for payment under the contract.

2. Evidence indicating that the head of Company A’s Jakarta office organized the false billing scheme and instructed the company’s project staff to prepare false receipts for the reimbursable line items in the Contract.

3. Indicators of potential corruption, including payments for purported office renovations without supporting documentation, as well as regular cash transfers for which the supporting documentation was falsified.
Background

Water Sector Project A (the Project) was funded by an IBRD Loan, an IDA credit and funds from a trust fund. The Project sought to, among other things, improve water allocation, quality, conservation and river infrastructure and improve agricultural productivity. Company A was awarded a consultancy contract financed by the Project.

Allegations and Methodology

In April 2009, INT received allegations that Company A was submitting inflated invoices supported by falsified receipts for reimbursable items in the Contract in order to make payments to government officials related to the Project. INT conducted an inspection of Company A’s books and records in early 2010 as part of its wider administrative inquiry.

Findings

The Contract provided for Company A to be reimbursed for “expenditures actually and reasonably incurred … in the performance of the Services,” and required that Company A “submit to the Client, in duplicate, itemized statements, accompanied by copies of receipted invoices, vouchers and other appropriate supporting materials, of the amounts payable.”

1. INT found evidence indicating that Company A engaged in a false billing scheme.

INT’s investigation found evidence indicating that Company A engaged in a false billing scheme from the beginning of the Contract by systematically fabricating, falsifying and inflating the amounts of the receipts in support of its invoices submitted to the Client. The evidence indicates that most of the reimbursable expense categories listed in the Contract, such as office space, duty trips, communication, office furniture, office equipment, computer consumable and supplies, were affected by the false billing scheme.

INT found evidence showing that at its project office in Jakarta, Company A retained the original receipts and separate books and records which support the actual costs incurred by the regional project offices. INT confirmed with the vendors and suppliers for computer consumables, computer accessories, stationary, furniture, travel and food that these receipts were the true original receipts, and that the ones submitted by Company A to the Client for payment were fictitious, falsified, and/or inflated in value.

2. INT found evidence indicating Company A organized a false billing scheme.

INT uncovered further evidence suggesting that Company A organized the false billing scheme and instructed its Jakarta project staff to prepare false receipts for the reimbursable line items in the Contract. INT also found evidence indicating that Company A also instructed its regional offices to produce and submit fabricated, falsified
and inflated receipts to Company A to include in Company A’s invoices to the Client. Company A maintained a parallel accounting system to track the illicit profits obtained from the false billing scheme as this has been Company A’s usual practice to invoice the full amount stated in the Contract instead of the actual amounts incurred.

3. **INT found indicators of possible corruption.**

Lastly, INT found several indicators of possible corruption, including: (i) cash payments for office renovations for which INT found no supporting documents showing completion of works; (ii) payment for the rental of a house even before the Contract and lease were signed that was to be used as the project office; (iii) rental of an apartment for the Head of Company A’s Jakarta Office that was contingent upon Company A receiving the advance payment on the Contract; (iv) regular monthly wire transfers purportedly made to a bank account of a stationery supplier that was different from the bank account of the supplier that was listed on an original invoice; as well as (v) various payments to government officials for meeting attendance and gifts.