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# Part II

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## *ACTION IN CORRUPTION-PRONE AREAS*

- D. Police Forces
- E. Government Procurement
- F. Tax Administration

## **D. POLICE FORCES**

## Chapter 9

# Combating Corruption Effectively within the Metropolitan Police Service

■ Michael Taylor

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*“A high command unwilling to acknowledge that the problem of corruption is extensive cannot very well argue that drastic changes are necessary to deal with the problem”* (W. Knapp in a 1972 report of the commission to investigate alleged police corruption in New York)

This chapter provides a brief overview of the recent experience of the Metropolitan Police Service (MPS) in London in tackling the scourge of corruption and the lessons learnt during a difficult period. It focuses on the implementation of a corruption strategy to prevent many of the organizational and cultural failings that degraded the service’s ability to deal with the issue of corruption effectively.

The police service has recognized its particular vulnerability to corruption and is leading the way in developing effective countercorruption strategies and investigative and preventative methodology. The hope is that other parts of the public and private sectors will follow.

Keeping the matter in context is important. The MPS is a massive organization with more than 37,000 personnel. It is a £2 billion a year organization similar in size to the Royal Air Force. The number of officers involved in corruption is small, but the damage they inflict is disproportionately high.

Most of our difficulties concerning corruption arise simply from our own perception of it. Essentially, we have assumed in the past that it is an issue that does not intimately concern our own organization or our close colleagues. We have been quick to attribute it to other organizations, and even to other countries, never to ourselves. When we have detected corruption, our response has reflected

the belief that it was limited to a small group of rogue officers. This mind set is best evidenced by the organization's complete failure, for decades, to use the tools that we have routinely deployed against other organized crime to combat corruption within our own ranks. Examples abound: we did not collect or maintain an intelligence database on corruption (a crucial failing), nor did we provide officers tasked with anti-corruption with an adequate surveillance capacity to target some of the best trained suspects in the world. We did not become effective until we came to terms with the fact that corruption will probably always be with us and must consistently and continuously be countered.

There have been three key areas of concern relating to police corruption and malpractice in the United Kingdom since World War II. The first was the excessive use of force, not only during arrest, but also in extracting false confessions. Other than in isolated instances, unlawful force has not been a significant problem.

The second area of concern was interference with evidence as a form of corruption that came to the fore during the 1980s. Revelation after revelation of apparently deliberate wrongdoing by police officers, leading to miscarriages of justice, emerged from across the capital. By the mid- to late 1980s, implementation of the 1984 Police and Criminal Evidence Act and other legislation, which introduced clear scrutiny of processes, had substantially undermined police officers' ability to interfere with evidence. In 1992 the Royal Commission on Criminal Justice introduced further safeguards. However, we recognize that interference with evidence can lie beyond the scope of procedural restriction and cannot be said to have been totally eliminated.

The abuse of position and/or power for gain is a more pervasive form of corruption and can take many forms. The introduction of new laws and new technologies opens up new opportunities for corrupt police officers to abuse their authority and power. These abuses can relate to interference with evidence, but can also extend to the third area of concern: the leaking of classified intelligence, the illegal use of computers, the provision of sensitive material to unscrupulous journalists and other media representatives, and the protection of criminals from investigation and prosecution. It is this last element of corruption that has proved to be the main focus of the current MPS anti-corruption campaign.

In the past the Police Service, and the MPS in particular, failed to recognize that corruption is not simply a scandal that erupts periodically and

can be extinguished like a fire. With the benefit of hindsight we now know that corruption is not cyclical in nature, but it is the effectiveness of the response to corruption that tends to be cyclical.

Corruption has demonstrated remarkable durability and flexibility. Like a virus it mutates and adapts to new environments. The corruption of processes that had been seen in the United Kingdom earlier and was often categorized as “noble cause corruption” was by now clearly less common by virtue of much greater levels of scrutiny of the processes of arrest, detention, investigation, and prosecution.<sup>1</sup> However, by the early 1990s, process corruption had changed emphasis, and where it occurred was often for financial reward, for example, the destruction of evidence in return for favors or payment.

The exponential growth of drug-related crime during the 1980s gave rise to the second mutation of corruption. Drug crime presented corrupt officers with new opportunities and drug traffickers, with significant assets at their disposal, had the capability and motivation to corrupt officers to protect their business.

Another mutation grew from the Police Service’s developing capability to use intelligence and computers to fight crime. Police organizations are traders in information, some of which is extremely valuable to criminals, unscrupulous journalists, and others. By the early 1990s the incidence of corrupt leaking of intelligence had risen sharply. The introduction of sophisticated information technology systems makes all staff more effective and productive. However, it also makes an organization more vulnerable to subversion. Fewer corrupt staff can access the work of literally thousands of honest officers. Traditionally, the MPS has been extremely democratic in the way it allows all staff access to most of its intelligence. This was justified in the belief that all staff were honest. Certainly most are, but we now recognize that we need to balance ready access to information with protecting information from the few corrupt staff.

A further mutation of corruption resulted from the growth and sophistication of organized crime, including international drug trafficking. One only has to look at the experience of the United States to see the potential impact that organized crime, with vast sums of money at its disposal, can have on criminal justice and on law enforcement agencies.

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<sup>1</sup> Noble cause corruption is the fabrication of evidence to convict people whom the criminal justice system has failed to convict, but whom officers honestly believe to be active criminals.

London's last anti-corruption campaign concluded in 1977, and 500 officers were expelled. Other priorities then took precedence; however, corruption was quietly undermining the effectiveness of the Police Service. Little was done to combat corruption until a campaign started in 1993.

The specter of corruption began to re-emerge publicly between 1990 and 1993, when a series of major and organized crime investigations were inexplicably compromised. A number of significant prosecutions and trials also collapsed amid allegations of sabotaged evidence and subverted juries. At the same time anecdotal intelligence indicating the existence of corruption was increasing. This intelligence derived from informal networks within the service, from criminal informants, and as an incidental product of technical surveillance. Corruption was clearly exacting a heavy cost on police efficiency. The cost of compromised investigations and trials was largely invisible, but ran to millions of pounds.

As London's MPS was most affected by these issues, the current anti-corruption campaign began in London. The reputation of the MPS was being undermined, and policing, as understood in Western industrial nations, was under threat, along with the reputation of Scotland Yard, previously synonymous with integrity.

These new manifestations of corruption coincided with the appointment of Sir Paul Condon as MPS commissioner in 1993. He was unequivocal in his response. The MPS would not tolerate corruption. The commissioner and a select group of senior colleagues established what became one of the most secret operations the MPS had ever undertaken. Operation OTHONA was a radical intelligence gathering operation designed to penetrate the operational strata of the organization using sophisticated and intrusive intelligence gathering methods to determine the extent of corruption and develop a strategic analysis of the threat.

Operation OTHONA, which ran from 1993 to 1997, revealed a number of unpalatable practices, namely:

- Stealing drugs and cash during searches
- Sharing informant rewards
- Fabricating informant reward applications
- Destroying or fabricating evidence in return for payment
- Selling operational intelligence
- Trafficking in drugs

- Arranging with informants for crimes to be committed and the proceeds shared.

Operation OTHONA revealed that a small number of police officers were engaged in serious corruption and that corruption was now far more covert and sophisticated than had been the case during the last campaign in the 1960s and 1970s. Even though a relatively small number of officers were involved, they were often highly skilled detectives in sensitive posts where they could inflict incalculable damage on the service by betraying their office and public trust.

The Anti-Corruption Command was launched in January 1998. Initially 150 handpicked detectives were directed to tackle corruption head-on. By December 2000, 38 people had been convicted and imprisoned for serious corruption offenses, of which 11 were police officers, 7 were former police officers, and 20 were either officials in other parts of the criminal justice system or criminals who had corrupted MPS staff. As of December 2001, 5 trials were in progress at the Central Criminal Court and 41 people (15 of them serving police officers) were awaiting trial for similarly serious corruption offenses.

Corruption is a pervasive problem and can only be defeated using a strategy that not only detects corruption, but systematically addresses its causes and the vulnerabilities of individuals and the organization. In December 1998 the MPS launched its Corruption and Dishonesty Prevention Strategy, which has served the organization well, and is currently being revised to reflect experience. The strategy comprises the following six key strands:

- Prevention and detection
- Inclusion
- Focus and accountability
- Supervision and leadership
- Security, screening, and vetting
- Corruption and dishonesty proofing.

This chapter focuses only on prevention and detection. A comprehensive armory has been developed within the MPS to tackle corruption that includes the following:

- A highly effective intelligence system, that pervades the organization and acts as an indicator of corruption.

- A high-level capability to conduct covert and reactive criminal investigations.
- A similar capability for internal discipline investigations, which is particularly suitable where for technical reasons criminal prosecution is not achievable.
- The use of cutting-edge investigative methodology and technology, much of which is unfamiliar even to the most experienced corrupt targets.
- A holistic approach to investigating police complaints from the public, to ethics, to integrity, and to professional standards. This overlays management information on complaints with that on corruption and links this with intelligence to achieve incisive analysis of not just problem individuals, but trends and causes.
- Comprehensive witness protection arrangements.
- The MPS Integrity Testing Program, which is uniquely split into two specific tools, one acting as a scalpel to cut out corruption (intelligence-led tests) and the other acting as an X-ray to look into the soul of the organization to analyze behavior and the drivers of corruption, dishonesty, and malpractice (quality assurance checks).
- The service confidence procedure, which is a backstop to protect the organization where criminal or discipline disposals are unachievable, yet compelling material indicates that an individual is a threat to the service.

The MPS has learned a number of lessons from its experience that may be useful for other law enforcement agencies, namely:

- The recognition that a law enforcement agency will never be completely free of corruption.
- The organization must have a strongly established and credible strategy in place to combat corruption.
- The nature of corruption is not cyclical, it simply adapts to an ever-changing organizational environment
- A law enforcement agency must actively collect intelligence about misconduct within its own organization.
- The tactics and systems used against crime should be used in internal investigations.
- A strategy can only be credible if adequate resources are provided.
- A proper system must be in place to support the reporter of misconduct.
- The organization's culture must change, so that officers sincerely identify with the anti-corruption ideology.

# Developing a Technology of Behavior: An Alternative Approach to Preventing Police Corruption

■ Harry C. Lorenzo, Jr.

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**W**e have used science and technology to address many of our concerns and to solve a large number of problems. We have developed all kinds of contraceptives to control rapid population growth. We have searched for new medical technologies to cure and prevent deadly diseases. We have produced cars and airplanes to make transportation fast and comfortable. We have invented agricultural tools and machines to increase production and stave off famine. We have created computers to give easy access to knowledge and information. We have designed spaceships to explore space. Why do we not use our scientific knowledge to design a program that will change the way people behave, a technology that will direct human behavior toward a specific goal like a missile that is guided to its target? If we want the police to be honest, then we have to create a program that will protect them from corruption and guide them to honesty.

A technology of behavior is premised on the following assumptions: (a) police officers are products of their environment, and (b) human behavior is shaped and maintained by its consequences. Therefore the environment in which a certain behavior operates could be systematically manipulated either to change, shape, or maintain that behavior. According to Skinner (1972), the environment does not push or pull, it selects.

## **HOW DO WE START?**

We often say that the most difficult thing to do in research work is to identify the problem. The moment we have identified the problem, it is half solved. As this chapter focuses on preventing police corruption and not on

how to stop it once it has already occurred, it focuses on the most pervasive, but subtle, root of corruption: recruitment and training. According to Walker (1992): “The chances for corruption are greatly reduced if an agency takes steps to ensure that it hires individuals with high standards of integrity.”

## **RECRUITMENT**

We can significantly reduce the number of corrupt officers entering the organization by immediately screening out applicants who do not meet the criteria during the recruitment process. Applicants with a history of criminal activity, alcoholism, obsessive gambling, drug abuse, or deviant behavior should instantly be eliminated from consideration. Applicants who pay to join the police force or pulls strings to be accepted cannot be expected to be honest and must be withdrawn from consideration.

During the recruitment process applicants should pass through a rigid selection process that would include at least the following:

- An intelligence test
- A personality test
- A background investigation
- An alcohol and drug test
- A polygraph examination.

## **TRAINING**

A training environment that encourages giving gifts or favors and tolerates mediocrity induces corrupt practices.

Police academies and training schools should identify the values or attributes that have to be shaped and maintained by the trainees. These are the qualities that have to be strengthened by positive reinforcement every time they are displayed. This is what is meant by behavior is determined by its consequences.

The identified values or attributes must be transferable to the outside world. The shaping and maintenance of the desired values must be part of the curriculum across all subjects and activities. Each time the trainees display honest and honorable behavior, they have to be rewarded, for instance, through a gesture of approval, commendation, or other recognition. This kind of training is only possible if all those involved in training are committed to

creating an environment that is conducive to the development and maintenance of the desired values. If the trainers are themselves involved in corrupt practices, then a culture of corruption is created.

Recently the Philippine National Police Academy was rocked by a scandal that led to the dismissal and suspension of the entire class of 2001 and the dismissal of all tactical officers and the director. A new cadet died and many others were hospitalized because of hazing or other maltreatment. The suspects were upperclassmen. During the investigation no one claimed responsibility or identified the suspects. The class of 2001 even claimed that hazing did not occur in the academy. These trainees are not supposed to lie, cheat, or steal or tolerate those who do. The Honor Code is the foundation of their training. However, cadets did not want to squeal on their peers or their upperclassmen because hazing had become part of their tradition, and anyone who squealed would have risked being ostracized. Thus the environment in the academy did not allow the development of honesty as embedded in the Honor Code.

The leadership of the Philippine Public Safety College, under which the Philippine National Police Academy operates, has realized the need to do something about the training and has started overhauling the curriculum and hiring highly qualified instructors.

## **TRANSFER OF LEARNING**

Real learning has a positive value. What one learns in a particular situation may be transferred to another similar situation. An example of this is someone who learned how to hit the target in the firing range during training. They apply this skill by hitting the enemy accurately during an encounter. Similarly, a desirable behavior learned during training may be transferred to the outside world when trainees become police officers. Those who have been trained in an environment that promotes and rewards honesty and excellence will behave accordingly. By contrast, those who come from a training environment where dishonesty and mediocrity were given more credit than honesty and excellence will almost certainly indulge in corruption when they become police officers. Thus designing an environment that will direct and guide behavior toward a specific desirable goal is essential.

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# Korea's Police Anti-Corruption Plan

■ **Bong-Ahn Yoo**

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**A**s in other countries, sporadic accusations have been made about police corruption in Korea. Some argue that problems throughout the system breed corruption, while others attribute it to the greed and low ethical standards of the individual officers involved. Aware of the pitfalls of the “rotten apple approach” to the problem of corruption, the Korea National Police Agency (KNPA) has tried to find systemic, organizational, and cultural causes of corruption and to make changes through such means as tightening supervision, revising regulations, emphasizing ethics education, and strengthening the internal investigation function after every police corruption scandal. However, the cancerous problem of corruption has periodically attacked the legitimacy of the police even following substantial changes.

Is police corruption uncontrollable, or are there problems in current anti-corruption systems and measures? Some argue that the problem of police corruption cannot be effectively controlled only by the internal efforts of the police themselves. They cite the wider social environment that includes gift-giving to public servants as a token of gratitude; unrealistic laws and regulations that make merchants feel that bribing officers is more cost-effective than doing business by the rules; and the low morale among police officers caused by low pay, low social status, low job satisfaction, and too much work as the prime causes. Such problems can only be addressed when society as a whole participates. The current government has been taking vigorous steps to implement anti-corruption measures and to root out the social and systemic causes of corruption.

## **THE GRAND REFORM**

Since December 1999 the KNPA has made strenuous efforts to break away from old traditions and habits. With the goal of becoming a police service trusted by the public, the 150,000 officers, from police officers to the

commissioner general, have been working together to reinvent themselves through self-control, creativity, and responsibility. The reform has resulted in an improved working environment. Programs have been introduced to serve the general public and efforts have been made to establish a positive image of the police force as one that works with the general public. A long-term improvement plan is currently being implemented.

The new police administration understood that tackling corruption involved making organizational, symbolic, and cultural changes prior to implementing specific anti-corruption measures. To accomplish these organizational aims, the administration carried out a strategy involving four stages.

The first stage was to share and spread the commissioner general's philosophy and ideas of the so-called Grand Reform among commanders. This was done by means of two-day workshops held around the country.

The second stage was to arm rank and file officers with the new spirit of "self-regulation, creativity, and responsibility." This was done through a series of ceremonies, educational activities, and face-to-face talks with the commissioner general, who traveled throughout the country visiting police outposts, stations, and regional headquarters.

The third stage was to satisfy the public. To accomplish this the administration set up the Task Force for Policy Reform, which introduced structural changes to the system, culture, and practice of policing. A team of inspectors investigated whether the reforms had been carried out as instructed. They found that after 100 days of reform, the goals of the first three stages had been achieved to some extent.

The fourth stage is for the reformed system, culture, and practice to be accepted and to form the basis for further reform.

## **THE KNPA'S ANTI-CORRUPTION STRATEGY**

By recognizing that preventing corruption is the first step in gaining the general public's trust, the KNPA has been taking measures to enhance police officers' resistance to corruption.

The first step is to strengthen ethics training and education. To build strong police work ethics and change the mind set of all, the time spent in ethics

classes at the Police Academy has been increased from 109 hours to 140 hours and the subject of police ethics has been included in the police promotion examination.

The second step is to rationalize and simplify police procedures and practices. Having recognized the limitations of relying only on identifying and punishing officers after they have been involved in corruption, the KNPA is now revising old-fashioned, unreasonable, and irrational procedures and practices. At the same time, the KNPA is emphasizing the importance of eliminating the habit of accepting small gifts and asking for favors from the public. Also, to enhance the transparency of police activities, the method of crackdowns has been changed. To guarantee fairness in cracking down on businesses that violate regulations, the police are now changing the regulating officers every day and disclosing the names of those officers, so that business owners will find it impossible to build relationships with officers so as to obtain tips on upcoming crackdowns. In addition, at least two officers take part in all crackdowns so as to keep each other accountable.

The third step is to cultivate the culture of self-reporting. Every police station has set up a so-called conscience room where police officers can return inappropriately accepted gifts so that they can be sent back to the provider with a thank you note. From April to October 2000 a total of 490 gifts amounting to some W57 million were collected and returned.

The fourth step is to revise the internal investigation and inspection functions. All inspection cards that contained police officers' personal details and records have been discarded so as to give officers with a tarnished record a second chance. In addition, the focus of internal inspections has shifted from uncovering faults and punishing officers toward guidance and evaluation. Minor mistakes are forgiven after issuing cautions, while harsher punishments are handed out for corruption-related acts.

The fifth step is to tighten discipline regarding corruption-related conduct and activities. Accepting gifts and favors for job-related reasons and leaking information are totally banned and are targeted by the internal investigation bureau.

The sixth step is to encourage external reviews and inspections. Members of the public are now being encouraged to monitor every day police activities to prevent corruption. A total of 5,523 private citizens are participating in joint civil enforcement units in 229 police stations, where citizens participate in cracking

down on businesses that violate regulations and on incidents of drunk driving. A nongovernment organization and various committees have been set up to take account of public opinion in police administration policy and to periodically evaluate the level of police corruption. Meanwhile, commanding officers, including the commissioner general, frequently meet with field officers to hear and incorporate their opinions in police policies. Korea has set up the world's first cyber police agency to handle various civil affairs, share information related to maintaining peace and order, and encourage the public to report corruption.

## **CONCLUSION**

Studies show that the efforts of the Korean police to curb corruption have paid off. Police corruption has dropped by 42 percent and the receipt of inappropriate gifts has decreased by 22 percent since the inception of the Grand Reform. The response from the general public has also been favorable. According to a recent survey conducted by a private research institute, citizens feel that the police have improved, especially in their work attitudes, friendliness, and confidence. Using such favorable responses from the public as momentum for further improvement, the KNPA is continuing its efforts to eliminate corruption.

To prevent reoccurrences of corrupt behavior, all officers who directly deal with the public have been evaluated for probity and integrity, and as a result 1,178 officers have been replaced. This evaluation will be conducted twice a year.

In April 1999 the KNPA placed inspectors in police stations. Their function is to listen to grievances from members of the public to protect their rights, resolve issues, and prevent corruption. This program has not yet achieved the expected results; however, its importance in stimulating communication between the public and the police should nevertheless be recognized.

In its 55-year history the Korean police service has not been able to resolve two issues. The first issue is improvement of the working environment, although some success has been achieved. The second is low wages, though this is also expected to improve significantly with an increased budget for 2001. Such improvements in working conditions and benefits shall serve as the foundation for preventing corruption.

## **E. GOVERNMENT PROCUREMENT**

# Anti-Corruption Measures in the Public Procurement Service Sector in Korea

■ Byungtae Kang

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**A**fter the Agreement on Government Procurement under the World Trade Organization came into force on 1 January 1997, Korea introduced international tender procedures for public procurement purchases above a threshold value.

## THE PUBLIC PROCUREMENT SERVICE

The Public Procurement Service (PPS) is a central government organization responsible for procuring commodities and arranging contracts for construction projects involving government facilities. The PPS deals with the procurement of goods and services worth more than US\$45,000, and is involved in construction projects worth more than US\$2.7 million. (For local governments the PPS deals with special projects valued at more than US\$9 million). Of the US\$45 billion spent annually on public procurement, the PPS handles 28 percent (US\$12.5 billion), while individual government agencies take care of the remaining 72 percent (US\$32.5 billion).

A number of different types of irregularities have been reported as follows:

- Providing preferential treatment to certain firms during the process of establishing specifications and determining contract methods
  - Being influenced by certain firms when preparing specifications or restricting the opportunities for participation in the tender by other firms
  - Limiting competition unnecessarily or abusing the use of private contracts

- Providing preferential access to tender information at the time of making an order
  - Carrying summarized tender information in the government gazette and disclosing detailed information to prospective bidders in a selective and limited manner
- Applying procedures for selecting successful bidders and for conducting private contract negotiations in an arbitrary manner
  - Interpreting selection criteria, including prequalification, arbitrarily rather than in an open and transparent way
  - In the case of a private contract, applying different negotiation prices for different prospective contractors
- Wrong doing by contract officers
  - Creating intentional delays in placing orders, determining successful bidders, concluding contracts, and arranging payment
  - Issuing or receiving false documents
  - Treating customers in a discourteous and highhanded manner.

## **REFORMS IN THE PUBLIC PROCUREMENT ADMINISTRATION**

Previous anti-corruption measures were enforced passively and lacked clear-cut objectives. In addition, the focus of such measures has changed from administrative expediency to a customer-centered model. The current reforms have five reform objectives, namely:

- Achieving a customer-centered procurement service
- Ensuring transparent and fair systems and procedures
- Having an efficient and economical procurement service
- Establishing a computerized database and an e-commerce system
- Implementing a procurement administration in line with the government's overall economic policies

Based on a survey of PPS officials and customers, in November 1997 the authorities selected 180 detailed reform tasks to be addressed in phases. In September 2000 a reform task force was established. The task force reviewed the achievements of previous reform programs and the underlying problems, and suggested a number of organizational reforms that the government is currently attempting to introduce.

## **Improvements in Systems and Procedures**

Suggested improvements in systems and procedures include the following:

- Enhancing competitiveness by changing specific procurement specifications to more general ones
  - Publicizing for seven days the specifications submitted by the end-user organizations, then gathering opinions from concerned parties
  - Using this input to improve specifications and make them more competitive
  - Conducting independent examinations of purchase specifications and endeavoring to make them more general without creating any impediment to the end-user organization
- Reducing the number of private contract and restricted competition tenders
  - Raising the threshold for entering into private contracts by increasing the required number of private contract evaluation points to more than 80<sup>1</sup>
  - Reducing the number of restricted competition tenders by formulating stricter criteria for adopting performance-based restricted competition tenders
- Actively publicizing tender information
  - Announcing the tender schedule at the beginning of the year
  - Publicizing specific tender information on the Internet, in government gazettes, and elsewhere, including types of goods, quantities, tender date, and estimated budget for the purchase of goods requested by end-user organizations
  - On receiving purchase requests from end-user organizations, publicizing them in detail on the Internet and at the customer service center at PPS headquarters
  - Providing on a real-time basis information on the current status of purchases, details about tenders, enforcement criteria for relevant laws and regulations, and updates on improvements to purchasing systems.
- Establishing execution criteria for contract procedures to prevent arbitrary implementation
  - Formulating implementation criteria for each type of contract and for each purchase procedure, setting up criteria on price negotiations for

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<sup>1</sup> The share of construction projects going to private contracts fell from 14 percent in 1990 to 6 percent in 1995 and 4 percent in 1999.

private contracts to prevent the arbitrary exercise of authority, and establishing a code of conduct for contract officers and distributing it to all officials to guarantee uniformity and fairness

- Clearly defining criteria for the selection of a successful bidder in each invitation for tender, and publicizing in advance detailed prequalification criteria for tenders relating to commodity procurement and construction projects
- Establishing a eight-hour rule governing the payment method such that if it is violated, public end-user organizations will be exempted from the supply commission normally imposed and the officials involved will be subject to disciplinary measures.

### **Bringing the Procurement Process Online**

As of 2000, the purchase of commodities and all accounting transactions conducted among the PPS, public organizations, and private supply firms has been via electronic data interchange. As of 2001, all tasks will be executed via this system. The authorities plan shortly to establish an infrastructure for e-commerce in the government procurement service sector.

The authorities also plan to computerize contract data and simplify procedures by automating them, thereby reducing the opportunities for contract officers to contact customers illegally. Databases will be set up for prequalification, and cost accounting information on supply firms will also be stored. Documents, including performance records, will be obtained via computer from relevant organizations instead of directly from contractors in an efforts to prevent contractors from submitting false documents.

### **Improving Officials' Awareness of Corruption**

Reforms are also aimed at improving officials' awareness of corruption, thereby enhancing the procurement administration process. The reforms include the following:

- Organizing inspection teams headed by the leading deputy directors of each division, adopting measures to root out irregularities, and strengthening inspection activities within vulnerable sectors
  - Avoiding favoritism and imposing strict punitive measures for wrongdoers, along with reinforcing the joint liability system

- Introducing a prior inspection system when formulating major policies for which later correction is difficult, thereby removing corruption and inefficiency ahead of time
- Encouraging the awareness of reform by revitalizing education programs, including the so-called Tuesday Forum and in-office study groups
- Enhancing civilian control of procurement administration, including implementing continuous monitoring through open communication channels on the Internet.

## **EFFECTIVENESS OF ANTI-CORRUPTION MEASURES**

Recent reports in the mass media note that the PPS employs transparent tender procedures. According to a survey by the Korea Development Institute, end-user organizations also praise the transparency and fairness of the PPS. However, the PPS is doing its best to continue to establish even more transparent systems and procedures. Its aim is to be a model for other procurement organizations.

## **F. TAX ADMINISTRATION**

# Ensuring the Confidentiality of Taxpayer Information

■ **David Williams**

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**T**he Office of the Treasury Inspector for Tax Administration (TIGTA) oversees the activities of the United States Internal Revenue Service (IRS). TIGTA is organizationally placed within the Department of the Treasury (the parent department of the IRS) for administrative purposes, but is operationally independent of the department.

The agency consists of approximately 1,000 employees, including approximately 475 investigations employees and 400 audit employees. TIGTA's audit and investigative activities are designed to promote efficiency and effectiveness in the administration of the nation's tax system, to detect and deter fraud and abuse in IRS programs and operations, and to protect the IRS against external attempts to corrupt or threaten its approximately 115,000 employees.

The protection of taxpayer information is of paramount importance to tax administration in the United States. Because of the sensitivity of tax information, TIGTA has a major focus on detecting and investigating improper access to, and disclosure or manipulation of, tax information. This chapter focuses on the methods TIGTA uses to detect internal computer crimes, as well as to detect external intrusions into IRS computer systems to access taxpayer information.

## **UNAUTHORIZED ACCESS TO AND MISUSE OF TAX INFORMATION**

The US federal income tax system relies heavily on voluntary compliance with tax reporting obligations. Maintaining public confidence in the proper handling and use of the information taxpayers submit is critical to the effective operation of the system of taxation. The IRS is expected to protect the privacy of all taxpayers, as well as to protect the integrity of the information in its systems.

Approximately 56,000 IRS employees have access to the more than 200 million personal and corporate electronic taxpayer files. Accordingly, TIGTA emphasizes detecting and investigating IRS employee misconduct as it relates to unauthorized access to tax information.

Since the 1970s Congress has imposed specific criminal sanctions against US government officials who improperly disclose tax information. In the mid-1990s TIGTA discovered that some IRS employees had engaged in the questionable practice of viewing taxpayer information without an official reason to do so. TIGTA brought this wrongdoing to the attention of the IRS and Congress. The IRS subsequently announced a zero tolerance policy, and Congress passed legislation outlawing unauthorized access to taxpayer information.

Having identified the problem of unauthorized access to taxpayer information, TIGTA now has an ongoing effort to identify not only “browsing,” but also focuses on finding the few, but critical, instances of misuse of taxpayer information.

Beyond the personal and sensitive nature of taxpayer information, it has potential value. It can be misused for personal or business advantage. TIGTA investigations have identified instances wherein tax information has been improperly obtained and used, for example:

- *Embezzlement*: employees have used access to tax information to manipulate tax records to obtain tax refunds to which they are not entitled.
- *Extortion*: employees have accepted bribes in exchange for lowering or eliminating individuals’ tax liability.
- *Insider transactions*:—employees have used taxpayers’ information to create an unfair business advantage for themselves (personal stock trades, purchasing a business) or others.
- *Identity theft*: employees use the identity of others, usually to commit fraud (fictitious credit card activation or benefit claims).
- *Provision of tax information to others*: employees sell or give tax information to others, such as private investigators.

An employee’s willingness to access taxpayer information without appropriate authorization may be an indication that the employee has engaged in, or may engage in, some other misconduct that may further undermine public confidence in the IRS.

## **RESPONDING TO THE INTERNAL THREAT: DATA MINING AND COMPUTER MATCHING**

Because taxpayer information is highly sensitive, and therefore valuable, TIGTA is constantly striving to find better ways to protect it. Most tax data are maintained in electronic form, making such data much more vulnerable to theft and alteration than data stored on paper, because transporting a large amount of stolen data out of secure facilities electronically or on diskettes is easy.

To detect employees who abuse their access to taxpayer information, the IRS created an electronic audit trail that records each access into the main IRS data system. Using methodologies TIGTA staff have discovered during investigations, they conduct an automated search of the audit trail for indicators of suspicious activity. For example, staff look for a relationship or locality match between the IRS employee and the taxpayer. The computer program asks such questions as: “Did the IRS employee access the tax information of a relative, business associate, employment reference, or the employer of a family member?” or “Did the IRS employee access the tax information of a neighbor?”

After the initial review TIGTA staff conduct further automated and physical analyses to determine if the suspicious anomalies continue to point to criminal activity. For example, comparing the information to a listing of deceased taxpayers revealed the names of IRS employees who had accessed the electronic tax files of deceased persons. An investigation was initiated, and TIGTA found IRS employees who had misused such information to generate tax refunds for themselves. One IRS employee gave the confidential tax information to others who committed other frauds.

Identity theft is a growing concern around the world, and tax data are extremely valuable in this connection. For example, an IRS employee used information obtained from IRS databases to create false identities and false credit histories for himself to obtain credit and credit cards.

Because of the obvious threat that such activity poses for individual taxpayers and the US system of taxation, TIGTA is constantly seeking to enhance its data matching skills to better detect these violations of law.

## **RESPONDING TO THE EXTERNAL THREAT: SURVEILLANCE AND TESTING**

The threat of unauthorized access to, and misuse of, taxpayer information also has external components. New technologies and the desire to provide better service to taxpayers increase the opportunity for people to attempt to access IRS electronic files. Hacking, viruses, and attempts to intercept electronic transmissions are all emerging threats.

TIGTA is working jointly with the IRS to create standards and protocols for detecting and responding to external computer crimes. The IRS maintains an electronic audit trail of external computer connections and attempted connections. TIGTA staff review these audit trails to detect anomalies and investigate any indication of improper attempts to access IRS systems. Furthermore, they conduct security testing of IRS systems to identify vulnerabilities and encourage IRS managers to install software upgrades on a timely basis.

## **REMAINING CHALLENGES**

For the US system of taxation to remain viable, taxpayers must trust that the authorities are doing their best to protect them from misconduct by government employees. One important facet of this work is assuring the proper use of taxpayer information. Despite TIGTA's best efforts, the system is not foolproof, thus it must continue to work diligently with the IRS to better deter, detect, and investigate the many different types of alleged crimes or misconduct involving IRS employees. TIGTA strives to provide independent investigations of high quality that prove or disprove the allegations made against IRS employees. The professionalism of TIGTA's staff and the trust of IRS employees in TIGTA are both extremely important to its mission.

# Recent Reforms of Korea's Tax Administration

■ Sang-Yool Han

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Since 1998 the Korean government has made strenuous efforts to prevent corruption and has achieved remarkable results in many areas. The reform of the National Tax Service (NTS) is one example of its success.

The NTS's anti-corruption efforts had concentrated on detection and punishment of officials involved in corruption. However, while this had some impact, it was generally ineffective in preventing corruption in the administration of taxes. Thus the NTS has realized that it needs to take preventive measures in addition to detection and punishment.

Korea experienced unexpected challenges as a result of the 1997 financial crisis. In response, the government launched an extensive program to reform the financial, industrial, labor, and public sectors that included reform of the tax administration system. The goal was to enhance the integrity of employees, the equity of the tax burden, the efficiency of tax administration, and the NTS's responsiveness to taxpayers.

These goals are closely interrelated, and therefore required a comprehensive strategy. This chapter focuses on how the NTS's reform program helped prevent corruption.

## **CHANGE IN THE TAX ADMINISTRATION MODEL**

The NTS's mission changed from the imposition and collection of taxes to the provision of such services that taxpayers could pay their taxes conveniently. To denote this change, the National Tax Administration changed its name to the National Tax Service in September 1999.

The traditional role of tax officials was to watch taxpayers under their jurisdiction and to persuade them to pay the correct amount of taxes through

frequent contact with them. Their new role is to lay a foundation for fair taxation through construction of such social infrastructure as credit card use, point-of-sale systems, bookkeeping systems, and standardized computer network systems.

Social attitudes toward taxes are based on people's cultural and historic background. The traditional approach to tax administration started during the Japanese colonial era, when the payment of taxes was not regarded as a virtue and many viewed the evasion of taxes as patriotic. However, such thinking did not change in 1945 after Korea achieved independence from Japan. Economic development, promoted by the government since the 1960s, depended largely on tax revenues, because the accumulation of private capital was negligible. Accordingly, close monitoring by competent tax officials was essential given the huge demand for financial resources and the poor extent of voluntary compliance.

The tax collection system was effective when both the size of the economy and the number of taxpayers were small, but as they grew, the system turned out to be defective in many respects. Corrupt tax officials, inequitable tax burdens, and inefficient tax administration were all problems, of which the most serious was corruption resulting from frequent contact between tax officials and taxpayers. In accordance with the democratization of Korea's political process, civil activists have demanded transparency in the administration of taxes.

## **REFORM OF TAX ADMINISTRATION**

Reforms included those related to employees and those related to overall administration.

### **Employees**

The 1 regional office and 35 district offices were consolidated, resulting in a reduction in the number of employees by 1,181. In addition, instead of being based on the type of tax, the organization was based on function. Thus instead of the divisions in district tax offices being broken down by general affairs, individual income tax, property income tax, corporate income tax, and value added tax, they now consisted of an ombudsman, a service center, a tax resources administration division, an investigation division, and a collection division.

Under the former system, zone management officers were in charge of all tax-related matters, including taxpayer registration, tax returns, assessments, and investigation. Following the abolition of the old system, 2,700 employees were reassigned to service centers and 5,200 were reassigned to investigation.

### **Administrative Procedures**

The reforms of administrative procedures concentrated on enhancing transparency, efficiency, equity, and responsiveness as follows:

- Expanding the use of a computer network system
  - The integrated tax system, a computer network system that contains all tax-related information, was established. As a result, the influence of tax officials in selecting taxpayers to be audited was considerably reduced.
  - Manual assessment of 5 million cases per year has been replaced by computer-assisted assessment, making 5 million face-to-face meetings between tax officials and taxpayers unnecessary.
- Incorporating all procedures into a manual. A 4,300-page manual has been produced that sets out and standardizes all procedures for tax registration, tax returns, investigation, and collection. The manual is expected not only to help the new organization operate smoothly, but to eliminate tax officials' subversion of procedures.
- Appointing ombudsmen
  - One ombudsman and two to five support staff have been assigned to every district office.
  - The ombudsmen has been granted the necessary authority to protect taxpayers' rights, including stopping unfair tax imposition and inspecting all documents.
  - Ombudsmen are appointed directly by the commissioner of the NTS, to whom they report, not by the directors of district tax offices. They are promoted based on their performance.
- Initiating efforts to make paying taxes more convenient.
  - Taxpayers need not visit tax offices to file their returns, and are encouraged to file their tax returns by mail. As of May 2000, tax returns filed by mail accounted for 68 percent of all returns. When taxpayers choose to file their returns at a tax office, they can put their tax returns into a collection box instead of dealing directly with tax office employees.
  - Tele-filing and e-filing systems have been developed and are currently being tested. The NTS expects that as of 2001, at least 25 percent of taxpayers will use these new options.

- The NTS recommends that certificates and other documents be requested via fax or the Internet. Taxpayers may also contact the NTS by e-mail.
- Adopting the Taxpayers' Rights and Tax Service charters.
  - The Charter of Taxpayers' Rights provides rules and procedures to protect taxpayers' rights, including the fair execution of audits and the provision of tax information.
  - The NTS believes that if taxpayers are aware of their rights, then this will help enhance voluntary compliance and transparency in tax administration.
- Laying a foundation for fair taxation. In the past, tax administration depended significantly on specific zone management officers. Following the abolition of that system, an infrastructure was required that would identify a tax base without face-to-face contact with individual taxpayers.
  - Social infrastructure was the most important consideration in reforming tax administration, because changes in social infrastructure can make business accounting systems more transparent and improve the equity of taxation.
  - The government sector must now pay for its expenditures by credit card or obtain receipts showing the amount of tax paid. Thus annual expenditures by the government sector, including the central government, government-invested institutions, and local governments, which amount to W180 trillion, are subject to the scrutiny of tax authorities and can be used as a basis for future taxation.
  - For the private sector a 10 percent penalty will be imposed if expenditures exceeding W100,000 (more than W50,000 in the case of entertainment expenses) are paid without using a credit card or obtaining receipts showing the amount of tax paid.
  - The use of credit cards is promoted using two incentives. First, households may deduct 10 percent of their expenditures using credit cards from their taxable income. Second, a prize of up to W100 million will be awarded to credit card users through the credit card lottery system started in January 2000. As of September 2000, 246,000 credit card users had won prizes.

## **ACHIEVEMENTS**

Most of the reform measures took effect in September 1999. While it is too early to evaluate their overall impact, many major successes have been achieved.

First, corruption has decreased significantly. Measuring this decrease is, however, difficult, given that corruption occurs in secrecy, nevertheless, it can be estimated based on the number of identified corruption cases. From 2 September 1998 through 1 September 1999, 45 corruption cases were identified, while the next year only 9 cases were identified. This change represents a decrease of 80 percent.

Second, the foundation for equitable taxation has been laid. A tax-related infrastructure is now in place whereby households and the public and private sectors are encouraged to use credit cards or obtain receipts when making payments. The doubling of credit card payments in 2000 is expected to increase tax revenues by W2 trillion. The increase in tax revenue resulting from the use of credit cards has contributed to equitable taxation, because it simplifies identification of the tax base in such businesses as restaurants, inns, pubs, and retail stores that are suspected of tax evasion mainly by using cash for their transactions. The filing of value added tax returns in July 2000 showed a 48.4 percent increase in the tax base of the foregoing businesses. This should contribute to greater transparency, not only of business entities by restricting their entertainment expenses, but also of the society as a whole by preventing tax evasion.

Third, the NTS has improved overall. Taxpayer service enhancements by means of the ombudsman system, the greater ease of filing returns, and the prevention of corruption have resulted in increased taxpayer satisfaction as measured by a private research institution.

Fourth, tax revenues have increased significantly.

Fifth, tax administration has become more efficient. Estimates indicate that the cost of tax collection dropped from W0.88 per W100 collected in 1999 to W0.82 per W100 collected in 2000.

## **CONCLUSION**

Tax administration is particularly vulnerable to corruption compared with other government activities. The NTS believes that eliminating corruption in the administration of taxes helps enhance taxpayer satisfaction, increase tax revenues, and improve administrative efficiency.

## *Chapter 15*

# Fighting Fraud in the Australian Public Sector

■ **Graeme Waters**

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**F**raud is one type of corruption and a component of most corrupt activities. Fraud itself has three key elements: dishonesty, deception, and intent.

Over the past four years the Australian Taxation Office's (ATO's) approach to preventing fraud has undergone a significant transformation. In 1995 the Internal Investigation Unit was a single dimension entity that did little to commend itself to the organization and could not have been considered to be effective. Now, however, the Fraud Prevention and Control Section is considered to be among those representing best practice in fraud prevention, control, and investigation in the Australian public sector. The investigation, fraud control planning, and fraud awareness programs are an integrated and effective system that adds significant value to the ATO and helps the organization maintain community confidence in its people and systems.

The importance of balancing a risk management approach to fraud prevention with an innovative education program that is supported by an efficient investigation capability has proven to be a success.

This chapter includes examples drawn from my recent three-year term as manager of the ATO's Fraud Prevention Group.

## **TYPES OF FRAUD**

Fraud can be categorized into two types: inherent fraud and system control fraud. Inherent fraud is that which a system will naturally attract to itself. Some members of society will always be willing to claim benefits to which they are not entitled, for example, by claiming fraudulent work-related deductions, understating their income on their tax returns, or falsely inflating values in an insurance claim. Inherent fraud is relatively easy to detect and investigate.

System control fraud occurs where individuals defeat or bypass an organization's control environment. This type of fraud is much harder to detect and investigate, because the very controls designed to prevent, detect, and deter criminal activity have not been triggered. They may have been deactivated, ignored by complicit or complacent staff, or defeated in one of the countless ways possible even with carefully designed and managed controls. However, the most common cause of system control fraud is either a weak control environment or individuals who know how the control system works. Experience suggests that it is due in most cases to a combination of both. Internal involvement in the fraud, either by current or past employees, contractors, or people acting in concert with them, is extremely likely.

Preventing fraud and planning to control fraud does not depend on whether the fraud risk is from external or internal sources. In both cases it requires a holistic risk management approach and must include the three basic elements of any anti-corruption strategy, namely, prevention, investigation, and education. The ATO's evolution in developing a fraud prevention strategy has aligned with the world's best practice, and the ATO employs this tripartite approach.

An effective prevention program uses fraud control planning based on sound risk management principles, a professional and accountable investigation capability with transparent handling of complaints, and an education program supported by a publicity campaign. The strategy must be balanced. Failure in or the absence of any of those three components significantly reduces the likelihood of success.

The concept that effective fraud prevention is a managerial responsibility is helpful. For example, in 1999 the ATO received about 360 allegations against staff, which at that time numbered about 18,000. Investigators found that 75 percent of those allegations were without substance and exonerated the employees. People often forget that honest employees who are at risk of having their reputations tarnished by vexatious or malicious complaints have no greater ally than the internal investigation unit. Of the cases that did result in action, about two thirds of them involved some degree of bad or complacent management. Bad management is a high fraud risk.

## **FRAUD PREVENTION AND CONTROL SYSTEM**

The Fraud Prevention and Control Section is part of the ATO's Internal Assurance Branch. The Fraud Prevention and Control Section is responsible

for investigating complaints made against staff that would, if proven, constitute criminal activity or amount to serious misconduct. Serious misconduct is defined as that which would likely result in the termination of employment.

The Fraud Prevention and Control Section is divided into three teams. The Investigation Team has 18 senior investigators, of whom 4 work full time on servicing an agreement with the Department of Family and Community Services to provide investigation capabilities for the Child Support Agency. Having one public sector agency paying a fee for service from another agency is somewhat unusual in Australia and represents the taxation commissioner's commitment to share expertise in fraud prevention programs.

Ample evidence shows that on appeal, many unfavorable decisions are a direct result of inexperienced managers attempting to resolve serious misconduct matters and botching investigations. The cost to organizations often includes compensation payments and the reinstatement of unworthy employees. These concerns apply to the investigation of all forms of corruption, whether or not fraud is a significant element. In recognition of that risk the ATO established the Official Conduct Investigation Unit, which provides a specialist investigation capability for managers dealing with breaches of the public service code of conduct.

Dealing with misconduct efficiently, effectively, and fairly is a significant issue for all organizations, and is fundamental to any anti-corruption and fraud prevention strategy.

## **INVESTIGATION SERVICES**

The Investigation Services team is responsible for receiving and evaluating complaints and handles preliminary inquiries before handing cases over to the investigation teams.

Investigation Services also provides administrative and case management support for the Fraud Prevention and Control Section. The importance of effective case management cannot be underestimated. External scrutiny of investigations, investigation methodology, and standards is integral to the proper management of an internal investigation capability and to ensure transparent operations in the investigation process. Accurately recording case details and generating statistical data help in quality assurance, and peer reviews are worthwhile and meaningful performance indicators.

## **FRAUD PREVENTION TEAM**

The Fraud Prevention Team is responsible for developing and monitoring the implementation of the ATO's fraud control plan and for developing, producing, and presenting the ATO's fraud and ethics awareness programs.

Because of its high profile across the ATO, the Fraud Prevention Team is often seen as a focal point where staff at all levels seek advice on ethical dilemmas, often anonymously.

## **JUDGE FOR YOURSELF AND PLAY IT AGAIN SAM**

Judge for Yourself and Play It again Sam are interactive, multimedia programs produced on CD-ROM. They use advanced, adult learning techniques to educate staff about fraud, ethics, and the public service code of conduct and values. The style of these programs is somewhat different from the usual when it comes to anti-fraud messages.

The CD-ROM format has three distinct advantages over the traditional video format. First, it permits the integration of video and animated segments. Second, it can be paused to allow for discussion and argument, which facilitates the interactive side of the program. Third, it can be easily edited for specific groups.

Another advantage over an online, self-paced training program is the ability for a group dynamic to interject when a participant is not catching onto the messages. For example, it allows a group to discuss issues, and in the case of dissent within the group, it provides an opportunity to reach a common resolution.

Fraud awareness training can be a dry, boring subject. Judge for Yourself and Play It again Sam use humor to introduce scenario-based training and adopt what is kindly described as an irreverent look at the ATO, its people, and its procedures. The style, typically Australian and with more than a few politically incorrect attitudes, has been a real hit. The impact and success of the programs has been measured in terms of how peoples' awareness has improved.

Many years ago, as a constable of police, I dreamt of the day when I would be promoted to the rank of sergeant or inspector, for I knew that from

then on I could do no wrong. Most ethics awareness training has been focused on junior employees. Middle and senior management have been ignored. This attitude frequently results in a barrier to learning, as the participants resent being singled out to the exclusion of their managers.

I was determined that this barrier would be removed in developing the fraud and ethics awareness package for the ATO, and that all managers would not only be seen to be accountable, but would also feel the privilege and the pain of accountability. The essence of ethics in the public sector is managerial responsibility and accountability. Through their own example managers must create a working environment where their staff can feel confident that when they report matters they will have the support of the organization and management, even when the subject of that report is a person senior to themselves. Staff should know that they will be commended for exemplary behavior and condemned for untoward conduct.

## **THE FUTURE**

The ATO is not satisfied with the status quo when it comes to protecting Australia's revenues and maintaining community confidence in its programs. Just as technology is providing new and exciting means of doing business, it is also creating new opportunities for corrupt and criminal behavior. This is why the Fraud Prevention and Control Section engages in the practice of continuous improvement and recognizes that there is always a better way of doing things.