

**Office of the Auditor General
INTEGRITY DIVISION (OAGI)**

RECOMMENDED ACTIONS TO REDUCE HARMFUL EFFECTS OF CORRUPTION

1. This paper presents a series of recommendations proposed by OAGI to reduce the harmful effects of fraud, corruption, collusion, coercion, abuse (theft, waste, or improper use of assets, either committed intentionally or through reckless disregard) [hereinafter collectively referred to as “Integrity Violations”] on ADB’s effectiveness.
2. As each staff member is at the forefront of ADB’s fight against corruption, OAGI strongly encourages all staff to be proactive in taking steps to reduce the harm and damage that Integrity Violations can have on development effectiveness. The recommendations have been formulated on the basis of lessons learned from OAGI’s investigation into complaints and allegations received.
3. This list is not exhaustive and is intended to serve as a starting point for implementing processes and systems that value integrity and minimize instances of Integrity Violations and its harmful effects. Business units are encouraged to develop their own good practices taking into account local circumstances and requirements.

RESIDENT MISSIONS

4. Resident mission (RM) staff are in the best position to identify instances of Integrity Violations as it occurs in ADB or in ADB projects. The recommendations below are relevant to any business unit, but are targeted at the capabilities and requirements of Resident Missions.

FUNDAMENTALS

5. **Clarify Staff Expectations re Duty to Implement Anticorruption Policy.** In our interviews with RM staff, OAGI finds that very often staff are not clear about what is expected from them with respect to the fight against corruption. RMs are encouraged to clarify expectations and to put in place guidance as required for local conditions. We recommend that, at a minimum, staff are reminded that they are expected to report instances of fraud and corruption. Staff should report suspicious activity, i.e. “red flags” of fraud and corruption. Staff are not required to investigate their suspicions and should leave investigations to OAGI, except if otherwise directed by ADB management or OAGI.
6. **Ensure Awareness of Code of Conduct.** Similarly, OAGI has observed (from its interviews with RM staff) that many RM staff lack awareness of the requirements of ADB’s Code of Conduct. It is recommended that each business unit leader institutionalize the practice of regularly reminding staff of their obligation to comply with ADB’s Code of Conduct. ADB’s Code of Conduct is in A.O. 2.02, which may also be found in the Appendix to “*Frequently Asked Questions, Anticorruption and Integrity*”.

<http://www.adb.org/Documents/Brochures/FAQs-Anticorruption-Integrity/default.asp>

It is also recommended that RMs invite staff on an annual basis to voluntarily disclose actual and potential conflict of interest.

7. **Provide Leadership and Emphasis on Integrity Matters.** OAGI has observed that fraud and corruption is most frequent when consultants and contractors are able to collude with RM staff. To enable consultants and contractors to understand that ADB will not tolerate Integrity Violations, it is recommended that a culture of high integrity must be inculcated and maintained within RMs. OAGI recommends that RM management must demonstrate leadership, set exemplary behavior for staff to follow, and discuss integrity issues on an ongoing basis, as part of their internal operational and planning discussions. It is recommended that RM management spend some time discussing what the role of individual staff and departments is/should be in supporting ADB's Anticorruption Policy. An interactive workshop (half-full day) may serve to further progress staff understanding and application of the Anticorruption Policy. Development of a country-specific integrity statement which encapsulates this discussion is also recommended. As appropriate, circulation and use of this document to partners and counterparts may help promote progressive discussions about integrity issues and its role in facilitating development effectiveness at the country level.

8. **Incorporate Integrity Topics and Actions into 2009 Work Plans.** Although ADB staff have an obligation to uphold the Anticorruption Policy, OAGI encourages the specific inclusion of integrity topics and actions within individual work plans to encourage staff to undertake specific actions for which they will be held accountable at the year's end.

9. **Review and Disclose the Sanctions List.** OAGI has noted that most staff do not consider it their responsibility to check the sanctions list. Business units are encouraged to develop systems to ensure that the sanctions list is checked, and that there is someone designated and accountable for failure to check the sanctions list. OAGI recognizes that the confidential status of the sanctions list is problematic in the field. Therefore, OAGI has recently taken a more flexible approach to determining who "needs to know". RM staff are authorized to disclose the list to EAs and IAs, provided the EA and IA verifies in writing that they will use the sanctions list only for the purposes of determining eligibility for purposes of procurement.

ESTABLISHING GOOD PRACTICES IN PROJECTS/PROCUREMENT

10. **Translate the Integrity Definitions.** To increase understanding of staff and participants to ADB-financed and –supported activity at all levels, it is advised to translate the harmonized terms (fraud, corruption, collusion, coercion, conflict of interest) to local languages.

11. **Include Integrity Training for Project Staff During Inception Missions.** This recommendation was submitted to OAGI by many RM staff. To increase understanding of project staff on ADB's anticorruption policy, OAGI recommends that integrity discussions are incorporated as part of every project inception workshop/meeting. To the extent that this requires OAGI assistance, PRM is encouraged to request such training as a part of an inception mission and to communicate with OAGI for planning.

12. **Authenticate Bank Guarantees.** OAGI receives a number of complaints regarding fake bank guarantees. Financial institutions are interested to know if their name and reputation are being compromised through manufacturing of false documents, and a quick call or visit with a copy of a bank guarantee can confirm or disprove authenticity of documents.

13. **Spot Check Prices and Information.** OAGI has observed that many staff do not exercise care in determining "overpricing" in ADB contracts. The internet is a convenient, fast way to check the validity of certain prices. While price differentials likely exist in every country, a quick check on the internet can help identify when \$3,000 is being charged for software which is

commercially available for \$100. Many overbilling cases could be prevented through if staff were to exercise due care with the checking of prices. It is also recommended that staff regularly spot check information received from vendors and bidders (e.g. through making telephone calls, or checking on the internet). Simple spot-checking can help identify fake or inflated invoices, false CVs and timesheets, and promote the awareness by third parties to ADB contracts that ADB values integrity.

14. **Require and Designate Accountability.** OAGI recommends that business units review their processes and systems to ensure that value is being added by each level of review. OAGI finds that many of its corruption and fraud cases could have been prevented by staff if they had stopped to check, confirm or verify documents received. In one example, one RM reported that analysts review 100% of the documents (for physical presence), the Project Officer reviews 80%, the PMU reviews 60% and the CD reviews 40%. If there is no value-added to reviews, the multiple tiers of “approvals” serve no purpose. It would be preferable for one clearly designated individual to be responsible and accountable. In another example, another RM reported that 20% of BERs are returned to EAs for further work. In many cases, the BERs are returned because the firms do not meet the selection criteria. When asked how often the EA replaces a firm on the grounds of criteria not being met, a number of staff in one RM replied “never.” It has been stated by several staff in one RM that their job is to confirm that the documents presented to them are present and accounted for, without value-added confirmation of the accuracy of the content of information presented.

15. Given that many development partners know ADB and our systems, it is unlikely that problems will arise from a physical verification check of documents (i.e., confirmation that the documents are presented). Problems are more likely to arise in the content presented, which can be revealed through verification of content. For e.g., OAGI has also noted a large number of cases where the basic data provided by consultants and contractors are found to be false. If ADB review of documents does not serve to ensure that systems are being upheld as intended, they serve no purpose.

ENHANCING GOOD PRACTICES IN INSTITUTIONAL PROCUREMENT

16. **Conduct Due Diligence on Vendors.** OAGI has noted that many vendors and bidders are either “ghost” companies, or are not bona fide businesses. It is recommended that RMs should take the necessary steps to ensure that it is doing business only with legitimate bona fide companies and persons. RM should be reminded of this requirement. OAGI also recommends that checking of vendors and bidders through open source documents should be standard operating procedure for all business units. As part of due diligence, RMs could require vendors to present proof of registration or incorporation. Physical verification of premises should also be conducted. For individuals, RMs could require identification papers, such as a photo identity card (e.g. passport).

17. **Develop a Database of Vendors.** OAGI has observed that many business units do not have tracking systems that allow it to know with whom it is conducting business with at a given point in time. OAGI advises RMs to develop a database of its vendors, (such as a basic excel spreadsheet which lists full details of those firms (name, address, telephone, fax, mobile, e-mail, web). The list should include full identifying information and contact details; as well as the full names and identifying information of key officers and directors.

18. **Properly Track Purchase Orders.** Similarly, purchase orders should be tracked regularly (e.g. through the use of a basic Excel spreadsheet). This is good practice as it serves

as a useful historical document for procurement experience. Modification/supplementation of this file is further recommended, to show bid patterns and frequency. This is also ultimately useful in identifying collusion when perpetrated by vendors.

19. **Identify Unusual or Irregular Institutional Procurement.** RM staff should be required to report unusual or irregular procurement or consumption by the RM or by a project office. For RMs, this is facilitated if the RM annual procurement requirements are disclosed to all RM staff.

PREVENTING COLLUSION AND ADDRESSING CONFLICTS

20. **Establish Independent Procurement Committee.** OAGI has observed that whole units within an RM may be engaged in collusion. It is recommended that RMs actively rotate staff. With respect to procurement, it is recommended that, where practicable, a Procurement Committee be comprised of representatives from across the RM to review bids and price lists received. Cross-departmental composition of the procurement committee allows for checks and balances against integrity violations.

21. **Encourage Disclosure and Recusal.** Staff are required under the Code of Conduct to be free of conflict of interests. A staff member must disclose any prior affiliations that may create a conflict of interest. OAGI has observed that staff often fail to disclose their prior associations with consulting/contractor firms and fail to recuse themselves from key decision-making involving such consulting/contractor firms. RMs are encouraged to implement a policy requiring staff to disclose their associations and to recuse themselves as necessary. Staff who are uncertain as to whether or not they are conflicted should be encouraged to discuss the matter with OAGI. Staff should be advised that failure to disclose/recuse is misconduct.

ENSURE INTEGRITY IN CONSULTANT RECRUITMENT AND MANAGEMENT

22. **Improve Transparency in Consultant Recruitment.** It has been noted that ADB's Guidelines on the Use of Consultants and associated procedures are often being used in a mechanical and technical manner, and without regards for the integrity of the process. For instance, bids or resumes are sometimes fabricated in order to present the minimum number required by ADB, without concern that the fabrication of bids or resumes is itself fraud. The fabrication of bids or resumes in order to circumvent ADB's requirements constitutes fraud. If one vendor or consultant is required/preferred, and justifications exist, then it may be provided through sole-source procurement, with adequate justification. While the justification may cause further discussion and debate, at least the process is transparent and is documented. Otherwise, the bidding should be completely open and competitive.

23. **Include Prohibition on Hiring of Close Relatives Language in Advertisements.** Standard integrity language should be developed for use in all adverts, which clarifies exclusions on hiring of family members and makes potential applicants (and the general public) aware of these restrictions. Close relatives of ADB personnel will not be appointed as staff. (See A.O 2.01, Appendix 1 for the list of persons which are considered close relatives. PAI 3.01 also provides restrictions on engagement of staff consultants. Both these requirements should be specified in advertisements as appropriate.

24. **Strictly Implement ADB's Conflict of Interests Rules.** OAGI often finds that consultants hired to design a program or TOR often finds him/herself back as the hired consultant to implement the activities he/she designed. This constitutes a conflict of interest, as the consultant had proprietary knowledge of the content under tender and the ability to design

the TOR to fit his/her profile. OAGI recommends strict implementation of ADB's conflict of interests rules.

STRENGTHENING ADMINISTRATIVE PROCESSES

25. **Proper Data Entry into the PCSS.** OAGI has observed that data entered into the Procurement Contract Summary Sheet (PCSS) without regard for completeness and accuracy. RMs should ensure that only authorized individuals post entries to PCSS. While this function is often seen as an administrative step and is delegated to lower levels, entry of information into PCSS serves as actual approval of contracts. To that end, clarification of authorized users and levels should be done and authorized users should be trained to the system. Entering and authorizing staff should be held accountable for failure to perform due diligence (with regards to checking of sanctions list, not reporting suspected activities, etc.).

INFORMATION TECHNOLOGY PROCUREMENT AND SECURITY

26. **Procure from Authorized Bona Fide Dealers.** OAGI has observed that the procurement of IT has been an area that has been affected by significant levels of corruption both at HQ and at RMs. To avoid many of the problems some RMs have experienced in the past, it is recommended that RMs establish a policy that all equipment (i.e., over US \$500 per unit), be purchased from authorized bona fide dealers only.

27. **Make Known Prohibited IT Activities.** OAGI has been told by many RM staff that they do not know what ADB permits or prohibits in the use of IT. OAGI recommends that all staff, especially at RMs, are advised of the requirements of A.O. 4.05 and any additional requirements specific to the RM. RM management should make clear that the use of keylogging and other non-authorized IT surveillance equipment could constitute misconduct; and clarify the RM's "reasonable personal use" policy and any restrictions such as pornography, or the downloading of commercial multimedia applications (movies).

28. **Require Oversight of IT Functions.** OAGI has observed that inadequate oversight of IT functions leads to creating an environment that facilitates fraudsters. Every RM is encouraged to insist that all staff regularly change their passwords, and adopt appropriate shut-down policies. Every RM should also ensure that IT servers are in secure rooms and not accessible to unauthorized personnel.