

**REVIEW OF THE
DEPARTMENT OF INSTITUTIONAL INTEGRITY
AT THE WORLD BANK**

**Government Accountability Project[♦]
Washington, D.C.**

September 5, 2007

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION

I) BACKGROUND

II) CONFLICTS OF INTEREST AND PERSONNEL APPOINTMENTS

- A) Dual Positions: Director of the Department of Institutional Integrity and Counselor to the President**
- B) Report from the Department of Human Resources on INT**
- C) Conflicts of Interest: INT and Diligence, LLC.**

III) REPORTING PRACTICES

- A) Non-Compliance with Authorized Audits**
- B) 2005-2006 Annual Integrity Report**

IV) INVESTIGATIVE PRACTICES

- A) External Investigations: India, Cambodia, The Democratic Republic of Congo, Armenia, Observations**
- B) Internal Investigations**

CONCLUSIONS

TABLES

- Table 1: Percentage of INT Staff at GE+ Level by Nationality**
- Table 2: Salary Differentials by Nationality in Oversight Units**
- Table 3: Sample Testing Of Administrative Expenses: Contracts**
- Table 4: Sample Testing Of Administrative Expenses: Procurement**
- Table 5: INT Cases By Investigative Outcome**

REVIEW OF THE DEPARTMENT OF INSTITUTIONAL INTEGRITY

Executive Summary

The Government Accountability Project's (GAP) review of the Department of Institutional Integrity (INT) 2005-2007 is an account of the World Bank's efforts to operate a credible anti-corruption unit. INT is responsible for the investigation of internal and external allegations of misconduct and fraud. The department is also expected to design preventive measures that can protect Bank Group resources from corruption and abuse.

When Paul Wolfowitz became World Bank president on June 1st, 2005, he announced to both the staff and the public that he was taking a "tough stand" on corruption. One of his first steps was to name a new director for INT. In doing this, however, he rejected a list of highly qualified candidates produced by a competitive international search and appointed his counselor, Suzanne Folsom, to head the department. The appointment was effected in a manner that was widely viewed as high-handed and misleading. Ms. Folsom's subsequent decision to retain her title as counselor to the president despite her responsibility to represent an independent and authoritative voice on questions of corruption and institutional integrity has been seen as a conflict of interest since then.

At the request of a number of confidential whistleblowers who approached GAP over the past eight months, we have undertaken to determine – to the extent that an outside organization can do so – the facts behind our clients' and sources' reluctance to trust the capabilities of INT. GAP is a non-profit organization that represents whistleblowers in the public and private sector and advocates their protection from retaliation. Because of our role in the resignation of the past president of the Bank, we do not claim to represent an impartial view of the activities of INT, but we do present an authentically independent and external one. Over the past 90 days, we have conducted over 30 hours of interviews with current and former Bank staff members, as well as with individuals otherwise associated with the World Bank. We have also reviewed a series of documents related to the activities of the department. **Because of a prevailing climate of retaliation at the Bank, we cannot reveal our sources, but we have investigated their disclosures. All factual information reported here has been verified by at least two independent sources and all documents cited have been authenticated.**

As a result of this review, we have found that during Ms. Folsom's tenure, staff at INT have reported to management a pattern of abuse of authority inside the department. Their appeals suggest that:

- Performance assessments are excessively critical of staff;
- High volume attrition among INT staff has become a problem;
- A bias exists toward US nationals in the hiring and remuneration of INT staff.

A recent memorandum from the World Bank Department of Human Resources to the Paul Volcker panel – which was commissioned by the Bank to review the activities of INT – quantitatively substantiates each of these charges.

In FY06, INT's resources were considerably enhanced compared to previous years, yet the department failed to generate a corresponding boost in achievement, efficiency or case closures. Among underlying problems in the department are conflicts of interest that have damaged the credibility of INT and a shortage of staff that resulted from high attrition rates. The departure of skilled staff obliged the director to rely heavily on short-term consultants in an effort to complete pending assignments. These consultants had limited knowledge of Bank regulations and were recruited in a non-transparent manner. As a subsequent report from the Internal Auditing Department of the Bank shows, it is not clear how INT management selected these consultants, nor are the particulars of their terms of reference known.

The interviews conducted by GAP, as well as the documents presented, uniformly indicate three critical deficits in the department:

- The absence of clear, coherent guidelines for prioritizing and pursuing investigations;
- The lack of policy for the systematic reporting of the results of investigations;
- An inability to develop effective safeguards against corruption as a result of the investigations pursued and to integrate them into future Bank operations.

In addition, our sources have reported the following important and immediate difficulties:

- The department director holds two positions that, between them, represent a conflict of interest.
- A complex personal, professional and financial network of relationships links INT, the International Republican Institute, and Diligence, LLC.
- INT failed to comply with an authorized audit, which the former Bank president allowed to be suspended in March, 2007.
- The report prepared by the INT team that investigated corruption in three World Bank projects in the Democratic Republic of Congo was suppressed with the cooperation of the director of INT.
- Serious allegations of fraud in the Municipal Development Project in Yerevan, Armenia have never been investigated although they are substantively documented and the consequences of corruption are extensive and ongoing.¹

To rectify these problems:

- The department director should renounce one of her two positions. To work with integrity, she may be either counselor to the president or director of INT, but not both.
- The relationship between INT and Diligence, LLC should be fully examined and all financial transactions between them should be disclosed.
- The report of the 2006 INT investigation concerning three DRC projects must be released.
- Serious allegations of large scale fraud in the Municipal Development Project in Armenia must be investigated.
- The audit suspended in March, 2007 should resume immediately.

¹ In the interests of full disclosure, we wish to state that GAP is legal counsel for a whistleblower whose allegations about the Municipal Development Project in Armenia are reported here.

Over the longer term, the following strategic actions could be taken to improve INT processes.

- The department should establish a credible selection process for personnel appointments and promotions that is consistently transparent and fair. Lack of diversity and a preference for Americans must be corrected.
- Steps should be taken to improve department morale and productivity. The high percentage of people on Performance Improvement Programs, the low percentage of completed Overall Performance Evaluations, and elevated rates of staff attrition all suggest widespread dissatisfaction among INT staff that is negatively affecting performance.
- External investigations must be expeditious, thorough, systematic and impartial. Findings should be integrated into Bank policy, as well as into prevention measures.
- Internal investigations must be conducted objectively and confidentially. Many staff members report that, currently, there is often a presumption of guilt, a failure to keep investigations separate from judgment, a frequent breaching of confidentiality, and a prioritizing of internal cases according to the agenda of the president's office.
- Explicit and transparent procedures for triaging and investigating cases must be implemented.
- Efficiency must increase as measured by the number of cases investigated and closed annually.
- Formal, transparent regulations for reporting case findings to Bank authorities, national authorities, affected communities and the public must be developed, disclosed and implemented.

On the structural side, strategic recommendations include:

- Establishment of an office of managing director for oversight services with an impartial attorney at the head. The office should be given the responsibility for both audits and investigations, and must have the authority necessary to enforce compliance with Bank rules, regulations and oversight procedures.
- Establishment of the terms of appointment for the director of INT: a five-year fixed term contract, renewable once. Criteria for renewal should include an evaluation of case opening, closure and carryover data, as well as the ability to integrate anti-corruption safeguards into lending policies. Renewal should be authorized by the Board of Directors on the recommendation of the President
- Measures should be adopted to effectively prohibit conflicts of interest at INT.

REVIEW OF THE DEPARTMENT OF INSTITUTIONAL INTEGRITY

THE GOVERNMENT ACCOUNTABILITY PROJECT'

September 6th, 2007

INTRODUCTION

In August, 2006, the management and the Staff Association at the World Bank requested assistance from the Government Accountability Project (GAP) in the drafting of a new whistleblower protection policy. Measures that protect whistleblowers from retaliation are a fundamental element of any corporate governance program that attaches importance to combating corruption. Unfortunately, the protections in place at the World Bank both then and now are ineffective. For this reason, as we worked with Bank staff on strengthening protections for those who disclose misconduct or corruption, whistleblowers began to come to us rather than use the internal channels established for their disclosures.

One of these channels is the Department of Institutional Integrity (INT), the Bank's unit charged with investigating internal and external allegations of corruption and fraud. As disclosures to GAP concerning misconduct involving the Bank's highest level officials increased, it began to appear that this channel was either dysfunctional or distrusted by Bank staff members.

Then, in March, 2007, GAP received documented allegations of an improper pay raise awarded to the personal companion of Paul Wolfowitz, the Bank president. A single data sheet revealed the violations of Bank regulations, the dates they occurred, the amount of money involved and the beneficiary. Only the identity of the officials who approved the violations remained unknown. The whistleblower who sent the disclosure also notified GAP that this same information had been submitted to INT over one year earlier. Nothing had happened.

In the wake of an investigation carried out by the Board of Executive Directors at the Bank, Paul Wolfowitz was identified as the official who proposed and approved the improper administrative action that benefited his companion. He ultimately resigned and left the Bank on June 30, 2007. During this period, however, a number of staff members from the World Bank approached GAP with disclosures about misconduct and uncertainty about reporting their allegations and their evidence to INT. As a result, we felt it incumbent upon us to pursue these disclosures and to help determine why it is that Bank staff are reluctant to reveal their identities or their concerns about corruption to their own internal investigative unit. **Because of a prevailing climate of retaliation at the Bank, we cannot reveal our sources, but we have investigated their disclosures. All factual information reported here has been verified by at least two independent sources and all documents cited have been authenticated.**

Widespread misgivings about the effectiveness of INT had also been conveyed to the Bank's Board of Executive Directors throughout 2006 by the staff. In response, the Board had directed

then President Wolfowitz to establish a panel of distinguished international experts for the purpose of reviewing INT's practices and procedures. On February 16, 2007, Mr. Wolfowitz named Paul Volcker to head the panel, a public servant well-known for his chairmanship of the US Federal Reserve Board and his review of the Oil-for-Food Program at the United Nations, among other things. Nonetheless, Bank staff alerted GAP to the fact that Mr. Volcker's professional career tracked closely with senior officials associated with the World Bank for many years. They expressed to us the concern that, however ethical Mr. Volcker might be, his close, recent and numerous associations with INT staff members created the appearance of a conflict of interest.

GAP posted these connections on our website and relayed them to the World Bank, and we received a response directly from INT that was unequivocal: we were attacking the reputation of one of the United States' most trusted public officials. We emphatically denied this. We told the INT official who called on behalf of the department that we were identifying a potential conflict of interest that could – and did – create doubts about the panel's ability to conduct its review impartially. We also announced that GAP would conduct a parallel review of INT's practices in order to pursue allegations made to us and to triangulate disclosures that might be made to the Volcker Panel. To collect information, we contacted INT staff members directly and notified them of our review. We guaranteed them confidentiality if they wished to participate.

Over the course of the past three months, we have conducted this review. As we conclude it here, we can summarize both the structural and the procedural difficulties faced by INT in recent years, under current leadership. Over the past 90 days, we have conducted over 30 hours of interviews with current and former Bank staff members, as well as with individuals otherwise associated with the World Bank. We have also reviewed a series of documents produced by our respondents and sources.

The information presented to us uniformly indicates a critical deficit in the department: the absence of clear, systematic guidelines for prioritizing and pursuing investigations. The willingness to make decisions on an *ad hoc* basis has led the department into a series of conflicts of interest, among other problems. Particularly at the level of department leadership, there is an inability to identify and address conflicts of interest where they do exist or may materialize and a corresponding tendency to perceive and react to conflicts of interest where they do not exist, or where they are manageable.

Specifically, we have identified two instances where our sources raise questions of impropriety. The first involves a consulting firm that has, in the past, used dubious investigation techniques. This firm hired a senior INT staff member in 2006 and began to receive sole-source contracts at that time. Those who questioned the director of INT about these contracts were severely harassed. When the Internal Auditing Department (IAD) attempted to review contracts with the firm, information was not forthcoming and the audit was suspended.

The second incident involved an INT investigation into three projects in the Democratic Republic of Congo (DRC). Investigators produced hard evidence of corruption in the three projects involving a close personal friend of the country's president. If released on schedule, the INT report could have embarrassed the president during 2006, an election year in the DRC. At

the request of a high-level official in the country, the report was suppressed. It has never been released. In suppressing the report, the director of INT acted in her capacity of counselor to the president, rather than as an agent charged with protecting the institutional integrity of the Bank.

Other problems, of course, also affect the department. The lack of prescribed procedures and the conflicts of interest that arise as a consequence first surfaced when the current director was appointed and they have plagued the activities of INT for two years, up to and including the appointment of Mr. Volcker. The purpose of our report is to highlight the difficulties caused by this shortcoming and to recommend, where appropriate, possible approaches to needed solutions. In no sense is this report intended as an evaluation of INT. GAP lacks the discovery power and the investigative capacity to accomplish this task and would not presume to have such authority.

I) BACKGROUND

When Paul Wolfowitz became World Bank president on June 1st, 2005, he announced to both the staff and the public that he was taking a “tough stand” on corruption. His program at the Bank would focus on strengthening the anti-corruption measures already in place by broadening the scope of investigations and stiffening sanctions imposed on guilty parties. Outgoing President James Wolfensohn had, throughout his tenure, also attached priority to the establishment of a credible policy to combat corruption and, as a part of this commitment, had established the Department of Institutional Integrity (INT), empowered to investigate complaints of fraud and misconduct and recommend policy changes to prevent their recurrence. As his second term ended, Wolfensohn bequeathed to Wolfowitz both his policy priority and an investigative capacity at INT.

Paul Wolfowitz also inherited Suzanne Rich Folsom, whom James Wolfensohn had appointed counselor to the president in 2003. In this position, she served as the liaison to the US Congress, controlled at the time by the Republican Party. Ms. Folsom is a US national, well-connected to both the White House and Capitol Hill in Washington through her husband, the former president and CEO of the International Republican Institute (IRI). The IRI received its budget authorization from the US Senate Appropriations Committee, with which another of Mr. Wolfowitz’s counselors had worked closely.

In October of 2005, the first director of INT was stepping down after completing one fixed five-year term. On his watch, the department had been resourced and a relatively diverse staff had been appointed. The first annual report was produced and a debarment process had been developed and implemented. Procedures designed to protect due process and the confidentiality of witnesses in investigations were in place. At the same time, difficulties remained. Relations between INT and the president’s office were strained at times, and it seemed that the director lacked the confidence of the president, which is necessary to be fully effective. Moreover, certain complex investigations had become protracted. The backlog of cases unclosed was approaching 400 in a department of 34 investigators and specialists and 13 support staff.²

² *Annual Report on Investigations and Sanctions of Staff Misconduct and Fraud and Corruption in Bank-Financed Projects.* World Bank, Washington, D.C., February, 2005.

Recently-arrived President Paul Wolfowitz appointed Mr. Wolfensohn's counselor and liaison to the US Congress as his own counselor and, in October, 2005, as interim INT director. At the time, a competitive, international external search had just been completed by a professional executive search firm and a multi-departmental committee at the Bank. Between the firm and the committee, the search had produced a list of finalists, which committee members thought included the most respected experts in the field of investigation and anti-corruption policy around the world. Among the finalists were the head of a European governmental organization, as well as an attorney who successfully prosecuted one of the more notorious international criminals and recovered substantial stolen assets for his national treasury. Preferred candidates had been chosen for their credentials, experience, reputation and success in investigating and prosecuting corrupt actors at the international level.

The stage was set for INT to assume a new level of effectiveness, credibility and efficiency. The Board of Directors had increased the budget of INT by more than 20 percent for FY06, which began in July, '05. A costly and comprehensive selection process had been carried out in order to ensure that the incoming director of INT was impartial and respected. Mr. Wolfensohn, members of the selection committee, and staff members at INT all recognized the importance of objectivity in the search for a director.

However, Mr. Wolfowitz set aside the list of finalists and instead appointed his counselor. He announced that the Bank had conducted an international search, but did not mention that he had overridden the results of that search in making his appointment.

II) CONFLICTS OF INTEREST AND PERSONNEL APPOINTMENTS

The 2003 Organisation for Economic Co-operation and Development (OECD) Guidelines for Managing Conflicts of Interest define this problem as "a conflict between the public duty and the private interest of a public official in which a public official's private capacity interest could improperly influence the performance of their (sic) official duties and responsibilities."³ A UN workshop on "Ethics in the Public Service," conducted by the Department of Economic and Social Affairs in October, 2003, emphasized the significance of conflicts of interest:

- Public interest is fundamental to public office;
- Public duties should be conducted in a fair and impartial manner;
- Conflicts of interest lead to a breakdown of trust in a public institution.⁴

Conflicts of interest may be actual, apparent or potential, but in all cases they must be directly addressed if public trust in an institution is to be maintained. These three forms of conflict are easily differentiated:

- Actual – current or past association leads to the improper performance of duties;

³ Organization for Economic Cooperation and Development, "Guidelines Managing a Conflict of Interest, Geneva, 2003.

⁴ Elia Yi Armstrong, "Workshop on Ethics in the Public Interest," United Nations Department of Economic and Social Affairs, Rabat, October, 2003.

- Apparent – private interests exist that may (or may not) improperly influence the performance of public duties;
- Potential – private interests exist that would create a conflict if the public official were to take on certain assignments in the future.

In a general sense, these conflicts may involve financial advantages, outside employment, inside information, contracting advantages, family or personal obligations and expectations, or gifts and other benefits. While it is true that in the relatively small world of international financial institutions, certain associations and interactions among individuals are unavoidable, they are still manageable in such a way as to preserve confidence in the integrity of affected staff members and organizations. Effective management of sensitive situations, in fact, allows preventive measures that eliminate actual conflicts of interest, protect public officials in cases of apparent conflicts, increase transparency and public confidence in public institutions, and safeguard responsible governance.⁵ In contrast, a failure to confront and manage conflicts of interest leads to a perception of collusion for private advantage at public cost and, to the extent that the collusion is real, constitutes corruption.

A) Dual Positions: Director of the Department of Institutional Integrity and Counselor to the President

In November, 2005, the search committee presented Mr. Wolfowitz with the list of vetted final candidates for the position of INT director. Instead of interviewing or selecting one of them, however, in January, 2006 he rejected them all and appointed instead the acting director as the permanent head of INT. In announcing his selection, Paul Wolfowitz told his staff and the public that the Bank had conducted an extensive international search and that he had selected Suzanne Folsom.⁶

Many Bank staff members, both inside and outside INT, felt that the consecutive statements about the search and the appointment were intended to convey the false impression that Ms. Folsom had been a candidate in the competitive search, when in fact she had not been. Clearly, the form of the announcement was misleading and strongly suggested that Ms. Folsom had received her appointment by winning an international competition. Moreover, witnesses close to the search committee reported that the candidates proposed to Mr. Wolfowitz were outstanding. According to these observers, Ms. Folsom, who was also at the time a counselor to the president, was selected in an improvised manner by the president himself, with the support of Robin Cleveland, another of his counselors. Staff members close to the process reported that Ms. Folsom's pre-existing connections to Ms. Cleveland through the Republican Party in the United States had given her an 'insider' advantage in seeking the post. Many believed both then and now that Ms. Folsom's insider status ultimately subverted an open competition conducted in good faith at public expense.

As Director of INT, Ms. Folsom's difficulties intensified at that point. Bank staff members interviewed by GAP have said they felt that the president should not appoint any department director in so personalized a fashion, and his appointment of the director of the Bank's

⁵ Elia Yi Armstrong, op cit, slide 9.

⁶ "Wolfowitz Loyalists Back Under Spotlight," *The Financial Times*, April 20, 2007. Eoin Callan and Krishna Guha.

investigations unit in this manner astonished them. Moreover, questions surfaced immediately about the integrity of an ethics attorney who would permit her appointment to be announced in a way that misrepresented the process through which she had been selected.

As the unit responsible for the investigation of fraud and corruption in Bank Group operations, as well as allegations of misconduct against Bank Group staff, INT reports directly to the president. The department's terms of reference recognize the sensitivity of information obtained by its staff and the delicacy of its position with respect to management and governments:

INT's activities must be carried out in an atmosphere free of improper influence, or even the perception of improper influence. Therefore, to ensure the independence of its activities, the Director of INT reports directly to the President of the Bank Group.⁷

When she was appointed to lead INT, Ms. Folsom served as Counselor to the President, a title she did not relinquish, although questions were raised about a conflict of interest between the two positions. In an interactive "Speak Out" on INT, conducted on February 22, 2007, the following exchange occurred:

Questioner: How can you be both a Counselor to the World Bank President and Director of the Bank's Integrity Department – are those two positions inherently in conflict, as on the one hand you're scrutinizing the Bank and yet you're counselor to the Bank's President?

Suzanne Folsom: I've heard that question before – glad you asked. I entered the Bank as Counselor to the President and was moved laterally over to INT. It wasn't a promotion.

As per INT's board-approved Terms of Reference, the head of the department reports directly to the President – just like a Counselor does. Since the President isn't staff, INT has no 'jurisdiction,' for lack of a better term, over him. I'm an ethics lawyer, and have done quite a bit of work on Conflicts of Interest – my titles pose no such conflict.

I should add, incidentally, that being Counselor to the President – the title, I mean – is actually important externally, in this line of work. When you're meeting with Ministers and cabinet-level officials, you carry a bit more weight if your title shows you have the ear of the President. This is a hierarchical world (and Bank) – access matters, especially for women.⁸

The matter of an actual conflict of interest is debatable. While both positions do report directly to the president, the perspectives from which they should speak are distinct. Unlike the secretary general of the United Nations, who is empowered only to execute the resolutions of the institution's member states and lacks the authority to promote an agenda of his own, the president of the World Bank is expected to develop a strategy for Bank operations, and he chairs

⁷ <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/.html>. Department of Institutional Integrity, Terms of Reference.

⁸ Speakout. Interview with Suzam Folsom on Fraud and Corruption. <http://discuss.worldbank.org/content/interview/detail/4811/>

the meetings of the executive directors. He is also responsible for staffing and operations and, over time, he has become the lead fundraiser for the International Development Association (IDA), the Bank Group's concessional lending arm. In that capacity, the president must be aware of, and sensitive to, political and economic processes that might influence the amount or the timing of national contributions. For the president, anti-corruption investigations and sanctions may be only one of different competing priorities, and his counselor must be an informed adviser and effective promoter of this complex agenda.

In contrast, the director of INT is to speak for the Bank as an institution, with a mission, reputation, rules and regulations independent of any particular office or administration. She must be protected from political influence and pressures arising from financial or organizational demands. Impartial, effective and expedient investigations and sanctions must be the director's only priorities. Holding both the title of counselor and INT director could easily place Ms. Folsom in a situation of conflicting imperatives. For example, an inquiry into allegations of corruption could impugn the constituencies of IDA's donor governments or major borrowers at a delicate time in the negotiations for IDA contributions or disbursement. In such a situation, the president's counselor and the director of INT might have different opinions about the best course of action to be taken.

In this sense, the final statement Ms. Folsom makes in the exchange above is revealing. She explains that she derives her 'weight' in the eyes of the Bank's client governments from her relationship to the president, rather than from her position as the senior integrity officer of the World Bank.

Moreover, as the exchange cited above illustrates, Ms. Folsom has a *perceived* conflict of interest. If the question concerning her dual roles has been repeatedly asked, then holding both positions simultaneously is creating uncertainty about where her allegiance ultimately lies, in the event that a conflict develops between her position as counselor and the interests of the World Bank itself. In this instance, then, simply stating that no conflict of interest exists is not enough. If the INT director cannot clarify the manner in which she separates her allegiances and responsibilities, she should renounce one position or the other.

For staff members who report misconduct, competing loyalties on the part of the INT director pose a particular worry. World Bank whistleblowers, when targeted for retaliation, do not have access to national courts in the event that they must contest a disciplinary decision that affects their livelihoods. Should the internal justice system fail them, they have no legal recourse, and for this reason, the director of INT, who is responsible for investigating charges of retaliation, must be free of even a perception of attachment to Bank authorities or vested interests.

But this is not the only reason that Bank staff members, in general, and INT personnel in particular are concerned about the close proximity of the director to the Bank president. Many employees report that they felt Ms. Folsom had extraordinary authority to reshape the department in accordance with her national preferences and political allegiance.

B) Report from the Department of Human Resources on INT

Since the director assumed her position as acting department head in 2005, a number of issues have arisen concerning the staffing of INT. Reports have suggested that:

- Performance assessments are excessively critical of staff;
- High volume attrition among INT staff has become a problem;
- A bias exists toward US nationals in the hiring and remuneration of INT staff.

Performance Assessments: When employees are not performing adequately, under Bank regulations, they are to receive notice of that fact. If they do not improve, they are placed on a Performance Improvement Program (PIP). The PIP identifies the performance goals the employees must meet by a specified date as a condition of continued Bank employment. While these programs may be an effective tool of personnel management, GAP has found, in a number of whistleblower cases, that they can also be used as an aggressive form of harassment and retaliation. Finally, we have seen that certain PIPs written by INT violate staff rules by requiring overtime, and others are vaguely worded such that standards to be reached are not objectively measurable.

In comparing the percentage of staff members on PIPs at INT with the percentage in separate operational Vice Presidential Units (VPUs), the Department of Human Resources (HR) found that the proportion of INT employees on PIPs is strikingly high in FY06-07. According to data compiled by HR, the percentage of staff on PIPs in the four VPUs ranged from .01 percent to one percent. HR did not produce the exact figure for INT during the same period, but the confirmed minimum was 14 percent and the possible maximum was 24 percent. Figures independently obtained by GAP show 14 percent of 55 INT staff members on PIPs in January of 2007. Over the course of the fiscal year, then, the percentage of INT staff members on PIPs was at least 14 times the percentage of VPU personnel on these improvement programs.⁹

This figure alone would suggest strongly that INT leadership is excessively critical of the department staff, but using another measure, HR validated this conclusion. The Bank evaluates personnel using an annual Overall Performance Evaluation (OPE) cycle. In a confidential memo obtained by GAP, HR writes to Ana Palacio, the Bank's General Counsel:

Typically a very low completion rate signals a significant lack of agreement between managers and staff on performance assessments and a breakdown of constructive management within the PMU. Our analysis of INT's OPE completion rates shows them to be among the very lowest in the Bank in the last three performing years.

- INT's OPE completion rate was 52% in 2004, 43% in 2005 and 52% in 2006.
- This compares poorly with Bank wide average OPE completion rates, which have risen steadily from 74% in 2004 to 78% in 2005 and 84% in 2006.¹⁰

⁹ Memorandum, HRSVP, Re: Human Resource Matters, 6/29/2007.

¹⁰ Ibid.

Staff Attrition: Together, the figures for the high percentage of PIPs and the low percentage of OPEs closed by the end of the annual cycle show a pattern of dissension between staff members and management in the department. It is not surprising, then, to find, at the same time, an extraordinarily high turnover among INT staff. HR also documented this pattern:

In fact, INT's attrition rates in FY06 were unusually high for any Bank PMU, and remarkably high even when compared with the department's high attrition rate for GE+ (professional) staff. Ms. Folsom was appointed to the INT Director position on 1/17/2006 and had been Acting Director since the fall of 2005. FY06 was, therefore, the first year of her tenure.

- The attrition rate of INT's Level GA-GD (support staff) was 15% in FY04 and 12% in FY05. However, in FY06 INT's GA-GD attrition rate spiked to 35%.
- Similarly, INT's level GE+ attrition rate stood at 17% in FY04 and 20% in FY05. In FY06 INT's GE+ attrition rate rose to 33%.
- By comparison, the average attrition rate in the 6 Regional VPUs between FY03 and FY06 has remained stable, at 12%.¹¹

The unusually high attrition rate in the department led to a number of difficulties. Most importantly, the shortage of staff obliged the director to rely heavily on short-term consultants in an effort to complete pending assignments. These consultants had limited knowledge of Bank regulations. Moreover, the recruitment of these consultants was not transparent. As a subsequent report from the Internal Auditing Department shows, it is not clear how the consultants were selected, nor are the particulars of their terms of reference known.

Anecdotal evidence suggests that the high attrition rates in the department led to a perception of INT as inexperienced and non-responsive. Quantitative data on case closures suggest low productivity and morale. In general, consistently high attrition among staff indicates serious management problems, including extremes of preferential treatment on the one hand, and punitive treatment on the other.

Moreover, INT staff members, to the extent that they participate in investigations into allegations of misconduct against other staff members, are entrusted with confidential information about their colleagues. It is best if they remain in the investigative unit where they acquired this knowledge, as practices that churn the department's personnel back out into the Bank's general population put confidentiality at risk.

Bias toward US Staffing: Certain Bank staff members who communicated with GAP during the review process expressed concern about the number of non-US nationals departing from INT after the arrival of the current director, who tended to replace them with Americans. A confidential report to the Board from the Audit Committee about a meeting convened in

¹¹ Ibid.

December, 2006 to discuss INT's annual report cites the committee's concern about a lack of diversity in INT, especially at the management level.¹²

Data from HR as of May, 2007 reveal that a concentration of US nationals had, in fact, developed. Of 50 staff members in the department, including professional and support staff, as well as contract personnel, 19 were Americans, representing 38 percent of all staff at all grades. In contrast, 27 percent of the headquarters staff for the World Bank Group are US nationals.

In addition, the number of Americans **at the higher grade levels** in INT is extraordinarily disproportionate.

Table 1: Percentage of INT Staff at GE+ Level by Nationality

Nationality Group	FY04	FY05	FY06	FY07
Americans	37	25	33	41
Others	63	75	67	59

Source: Memorandum, HRSVP, Re: Human Resource Matters, 6/29/2007.

After FY 2004, the diversity among personnel occupying the professional grade levels at INT was increasing. With the arrival of the current director, however, this shift reversed itself, so that Americans once again disproportionately occupied the professional positions in the department. Additional data from HR show that, in keeping with these figures, Americans working in INT enjoyed higher salaries relative to other staff members in the department. When compared against a salary classification by nationality for other departments with comparable skill requirements, the salary differential accruing to Americans in INT is exceptionally high.

Table 2: Salary Differentials by Nationality in Oversight Units

<i>Project Management Unit</i>	<i>Americans</i>	<i>Others</i>	<i>Differential: Americans vs. Others</i>
<i>Internal Audit Department (IAD)</i>	\$116,294	\$107,633	+8%
<i>Legal Department (LEG)</i>	\$109,761	\$106,848	+3%
<i>Institutional Integrity (INT)</i>	\$108,947	\$ 91,541	+19%

Source: Memorandum, HRSVP, Re: Human Resource Matters, 6/29/2007.

¹² "Report to the Board from the Audit Committee, Meeting of December 6, 2006" World Bank, AC2006-0119.

The bias toward US staff members is troubling, given that many investigations must be carried out in the Bank's borrowing countries. Unlike operations, which have a clearer set of objectives and activities, investigations are by their nature more fluid, especially in a climate where few procedural guidelines are firmly in place. INT staff, particularly at the analyst level and above, must be responsive and sensitive to the multicultural environments in which they operate if they are going to be effective. While the effectiveness of all Bank departments increases with diversity, in INT the fair representation of the Bank's member countries is absolutely essential, and department management that either allows or encourages a decrease in diversity has done the Bank a disservice.

Moreover, the bias contravenes the World Bank's stated employment policy of diversity:

Diversity & Inclusion are at the heart of how we define excellence. Our staff is our greatest asset – women and men from over 140 countries, drawn from a wide range of backgrounds, experiences and perspectives. Our diversity is our comparative advantage as a global knowledge and development organization.¹³

Because the World Bank Group includes over 140 member countries, the US should not hold 41 percent of INT positions at the level of analyst and above, particularly when the department director and the Bank president are also US nationals. Such a personnel profile can do serious reputational harm to the Bank by undermining its character as a multinational institution. A personnel structure at INT that is top-heavy with Americans can convey the impression that the United States, as a major donor, has established a department that it dominates and can use to investigate the operations of the World Bank Group anywhere in the world. The department's profile must be more diverse and representative of the Bank's member countries.

Overall, the picture that emerges from data presented by HR and supplemented by interviews show INT to be a department suffering from high levels of staff turnover and, as evidenced by the exceptional number of staff members on PIPs – a probable tolerance for harassment. Further, the department has developed an unusually Americanized profile with a remarkable preponderance of US nationals occupying higher positions and taking home higher salaries than their colleagues in comparable departments. Once again, there is either an apparent or actual preference for staff members who, like the director, are Americans, and this has created credibility problems for the department throughout the Bank.

C) Conflicts of Interest: INT and Diligence, LLC.

Our investigation has revealed that in 2005 INT issued contracts to Diligence, LLC, an international risk management firm with multiple relationships to current INT staff members. These relationships constitute an appearance of conflicts of interest and they should be closely reviewed by the Internal Auditing Department.

Diligence, LLC was established in 2000 by former US CIA and British MI5 operatives and is closely associated with the Republican lobbying firm, Barbour, Griffith and Rogers in Washington D.C. Although the World Bank discloses contracting information about its projects

¹³ "Diversity & Inclusion at the World Bank." www.worldbank.org

and operations and obliges borrowing governments to do the same, it does not reveal the contracts issued by headquarters management, and therefore GAP has not seen copies of contracts with Diligence.¹⁴ However, multiple respondents attest to the fact that INT management tolerates conflicts of interest with this company, including (but not limited to):

The Chief Investigative Counselor: The chief investigative counselor at INT has been a controversial figure during the past two years. The counselor is a US national and a member of the reserves of the armed forces of the United States. He is responsible for much of the highest level work in the department. In July, 2005, he left INT to become Managing Director at Diligence, LLC, which awarded him a substantial signing bonus. GAP has been told by two respondents that shortly after he departed for Diligence, the company received a contract from INT to retain him as a consultant on a sensitive investigation.¹⁵ Prior to the counselor's association with the firm, Diligence had no contracts with the department.

When questioned about the department's relationship to Diligence, a spokesman for INT said that Diligence had been awarded a single contract, which was issued only to allow the former INT employee to complete assignments he had pending when he left the department. GAP could not learn the amount of that contract. We have been told, however, by two independent sources that multiple sole-source contracts have been issued to Diligence and that staff members who questioned these contracts were severely harassed.

In May, 2006, this employee returned to INT with a promotion.

GAP has been told that INT, in its dealings with Diligence, requested a waiver of the World Bank regulation that requires a 12-month hiatus between the time an employee leaves the Bank and his or her eligibility to work as a consultant on Bank projects with which he or she was previously involved. In the case of Diligence, a waiver was issued by the ethics office, but it covered only the initial contract issued for 'uncompleted work.' The waiver did not cover subsequent contracts awarded to Diligence involving new work.

The Director of INT: The director of INT is married to George Folsom, the former president and CEO of the International Republican Institute (IRI). Mr. Folsom left IRI in the summer of 2004. That same year, IRI received a contribution from Diligence, LLC, which was acknowledged in the organization's annual report. According to the financial documents issued for the period between October 1, 2003 and September 30, 2004, Diligence Middle East, LLC – a subsidiary of Diligence – was IRI's second largest contractor. The following fiscal year, Diligence Middle East, LLC received an IRI contract worth \$1,743,913.

According to sources, the World Bank has issued contracts to Diligence, LLC since 2005 on a sole source basis. Sole-source contracts at the Bank can only be issued for amounts of less than

¹⁴ GAP was told by a procurement officer that the number, amounts and terms of reference for these contracts cannot be disclosed as they are not public information.

¹⁵ GAP pointed out in a press release on March 1st, 2007 that a number of staff members at Diligence had previously worked for both INT and on the Oil-for-Food investigation at the United Nations conducted by Paul Volcker: http://www.whistleblower.org/content/press_detail.cfm?press_id=804

\$50,000. Our respondents assert that INT contracted Diligence non-competitively for an initial amount of less than the sole-source cap on more than one occasion, but the contract was subsequently amended to an amount that far exceeded the allowable limit. Normally, the Bank's internal audits would detect any such violations of the Bank's procurement rules, but as described below, INT did not comply with an audit scheduled for FY2007.

III) REPORTING PRACTICES

A) Non-Compliance with Authorized Audits

To control for financial improprieties, INT, like other Bank departments, is periodically subject to audits carried out by IAD. IAD scheduled an audit of INT as part of its FY07 workplan and presented the department with the scope and objectives of the exercise during the first quarter of the fiscal year (July – September '06). Subsequently, both IAD and INT agreed on a division of labor with an upcoming external review in order to avoid a duplication of effort or an undue demand on staff time.¹⁶ Senior managers agreed that IAD's audit would cover financial management, the reliability of information supporting performance measures and process changes in INT. In contrast, the external review would cover only an examination of reporting and auditing procedures and would not constitute an audit *per se*.¹⁷

According to a document obtained by GAP, IAD limited the scope of its audit, as well as interactions with INT staff, in order to avoid interfering with the department's workload. During their review of documents produced by INT, however, auditors required assistance in clarifying specific issues. At this point, INT management requested a delay of the audit until the end of January '07, due to "overwhelming departmental demands and priorities."¹⁸ When the delay was granted and the audit was scheduled to resume, INT once again requested a delay, pending the completion of the upcoming external review, which at the time, was scheduled to conclude in July. At that point, IAD suspended its audit for lack of information and produced an interim report, based only on partial data it had been able to obtain.

IAD reported that it was unable to verify supporting documentation of exceptional or unusual transactions or of source data on key performance indicators. Nor could it validate recent improvements or process changes. The report concluded that: "An overall opinion cannot be provided at this time on the governance, risk management and control processes currently in place for INT's financial management."¹⁹

¹⁶ The external review became known as the Volcker Panel when Paul Volcker was appointed to lead the exercise in February, 2007.

¹⁷ The terms of reference for the Volcker Panel include an examination of: "The oversight mechanisms for INT, including the reporting relationship to the President, other members of senior management, the Audit Committee, and the Board of Directors, as well as the nature and frequency of this reporting and further options for strengthening oversight..." Terms of Reference: Independent Panel Review of the World Bank Group, Department of Institutional Integrity, February 16, 2007.

¹⁸ Audit of the Department of Institutional Integrity, IAD Report No. IBRD FY07-39, March 30, 2007.

¹⁹ *Ibid.*, p. 2.

In the months that it did work on INT administrative practices, IAD requested a sample of six consultants' contracts and fourteen procurement transactions, with supporting documentation. The interim report filed by IAD showed that the auditors' work was critically impaired by a lack of access to the information requested.

Table 3: Sample Testing Of Administrative Expenses: Contracts

<i>STC/ETC/ETT/STT*</i>	<i>Test Sample</i>	<i>Supporting Documents Reviewed</i>	<i>Supporting Documents Not Reviewed</i>	<i>% of Test Complete</i>	<i>Test Outcome</i>
<i>Consultant Rate Within Bank Policy</i>	6	6	0	100%	No exception
<i>TOR For Specific Project</i>	6	5	1	83%	Detail inconsistent
<i>CV Matches TOR Requirements</i>	6	3	3	50%	No exception on sample tested
<i>Fee Paid With Evidence Of Deliverables</i>	4	2	2	50%	No exception on sample tested
<i>Fee Payments Match Appointment Letter</i>	6	3	3	50%	No exception on sample tested
<i>Work Not Started Before Appointment Date</i>	6	3	3	50%	No exception on sample tested
<i>Transparency In Selection Process</i>	6	0	6	0%	Not yet made available

Source: Audit of the Department of Institutional Integrity, IAD Report No. IBRD FY07-39, March 30, 2007

*Short Term Contract, Extended Term Contract, Extended Term Temporary, Extended Term Contract

The failure to make the requested documents available, as shown by the table above, raises questions about the propriety of administrative expenses in a number of categories related to short-term and extended term contracts, including:

- Whether appropriate candidates were selected for tasks;
- Whether the work paid for was actually performed;
- When the work began;
- How the selection process functioned.

Clearly, the greatest concern, however, is INT's inability to demonstrate that transparency prevailed in the selection of consultants. In the absence of transparency in selection, cronyism and nepotism can flourish. Transparency is required in order to ensure that the best qualified candidate is retained by the Bank, in compliance with the limits of the applicable consultant rates. When perceptions of favoritism based on national origin and/or political affiliation attach to a department, it becomes especially important for management to establish that consultant selection is objective and fair. The reputation of INT, and by extension, of the Bank, suffers when even an internal inquiry into this type of administrative procedure is aborted. Whatever the other demands on staff time, compliance with an authorized audit should be a priority. Further, according to Staff Rules, a staff member who does not comply with an INT investigation may be charged with misconduct. INT should therefore comply fully with an internal audit in order to demonstrate a respect for corresponding Staff Rules.

Further, uncertainty about the propriety of INT's compliance with the Bank's procurement guidelines had surfaced throughout the Bank in FY06, and the completion of the scheduled audit could have resolved those issues also. Instead, IAD was obliged to report the following data documenting a lack of cooperation as analysts attempted to examine the practices surrounding contractual services.

Table 4: Sample Testing Of Administrative Expenses: Procurement

<i>Contractual Services Procurement</i>	<i>Test Sample</i>	<i>Supporting Documents Reviewed</i>	<i>Supporting Documents Not Reviewed</i>	<i>% of Test Complete</i>	<i>Test Outcome</i>
<i>Purchase Order available as Supporting Documentation</i>	14	3	11	21%	No exception on sample tested
<i>Evidence of Transparent Competitive Bidding (over \$50,000)</i>	12	1	11	8%	No exception on sample tested
<i>Single sole-source justification documented</i>	12	4	8	33%	Justification unclear
<i>Legal approval required for lawyers and procurement experts</i>	8	4	4	50%	No exception on sample tested
<i>TOR written for specific projects</i>	14	11	3	79%	Level of detail inconsistent
<i>Work performed only after PO issued</i>	14	3	11	21%	No exception on sample tested
<i>Deliverables available by milestones</i>	14	0	14	0%	Not yet made available
<i>PO closed if idle over 3 months</i>	4	0	4	0%	Not yet made available

Source: Audit of the Department of Institutional Integrity, IAD Report No. IBRD FY07-39, March 30, 2007

The failure to produce the documentation required to establish that both competitive and sole-source procurement practices are in compliance with Bank guidelines deals a serious blow to the credibility of the department, especially when allegations repeatedly have surfaced concerning unfair advantages accorded to two well-connected firms.²⁰ While no department is authorized to circumvent the demands of a scheduled audit, the implications of doing this for INT are especially damaging. This is the department that investigates Bank operations and administration in counterpart governments associated with Bank projects. IAD's interim report shows that, during FY07, INT was unable to produce documents and clarify questions raised about its own procurement practices, even with an allowable delay and a limited sample scope.

²⁰ One of these firms is Diligence, LLC, and the other is Grant Thornton.

When GAP inquired of a World Bank Board member about the completion of the audit, we were told that it would resume after the Volcker Panel completed its work in September, 2007. It would seem, however, that the work of the Volcker Panel would have been facilitated by the timely submission of a completed IAD report. The Panel was to examine oversight mechanisms for INT, including reporting to the Audit Committee, and the audit was scheduled to be completed well before the Panel was to report its conclusions. The delays requested and the lack of cooperation with the auditors leave a series of questions about the contracting practices and procurement at INT unanswered.

The interim report issued by the IAD cryptically observed:

INT is restructuring its business processes to improve operations and performance. It is essential that as INT moves forward, its systems and internal controls are adjusted and aligned with its processes to ensure compliance with Bank policies and procedures.²¹

B) The Annual Report

The Bank's Board of Directors mandated the publication of an INT annual report in July, 2004, and the department complied, releasing a report in February, 2005. This first report, completed under the leadership of Maarten de Jong, established a template for providing public information each year. The next report, however, was not issued until February, 2007, fully two years later.

The second report presents the INT budget and data showing the number of cases opened, closed and remaining, in addition to investigative outcomes and policy information. A description of the Voluntary Disclosure Program is also included. The '05/'06 report provided a forum in which the director and the Bank president expressed their perspectives on the Bank's accomplishments in the anti-corruption field.

As president of the World Bank, Paul Wolfowitz took an interest in the activities of INT as a partner in an anti-corruption agenda to which he assigned priority. Moreover, despite the irregularities of Ms. Folsom's appointment, there were positive aspects of her assuming the position of INT director: she is an attorney and she had the ear of the president. She was therefore positioned to raise the department's visibility and effectiveness after a period in which the relationship between INT and the former president had become increasingly distant.

When the FY05/06 report was issued, it was expected to show growing effectiveness in INT investigations and case closures. This expectation was based not only on the privileged access Ms. Folsom had to the president, but also on the substantial increase in resources allocated to INT under her leadership. The Department received a budget increase of approximately 24 percent in FY06, raising its total resources from \$10.7 million to \$13.3 million in a single year.²²

²¹ Ibid, Annex A.

²² The permanent staff of INT, however, actually decreased by four people, although five new investigators and specialists were hired as consultants. *2005-2006 Annual Integrity Report*, Department of Institutional Integrity, World Bank, Washington, D.C. February, 2007, p. 5.

Despite the substantial budget increase, however, case closure statistics fell dramatically between FY04 and '06.²³ In '04, 341 cases were closed, compared to 241 in FY06.²⁴

Table 5: INT Cases By Investigative Outcome

<i>Actions</i>	<i>FY04</i>	<i>FY05</i>	<i>FY06</i>
<i>Cases closed</i>	341	427	241
<i>Cases referred/not investigated</i>	160	77	52
<i>Low priority/no further action</i>	0	90	46
<i>Cases investigated, of which:</i>	173	260	143
<i>Substantiated</i>	76	105	43
<i>Not substantiated</i>	67	107	51
<i>Unfounded</i>	30	47	49

Source: INT Annual Reports, FY '04, 05/06

Moreover, unresolved high-priority external cases carried over into the following year increased during this period, from 72 in FY05, to 92 in FY06, to 117 in FY07.²⁵ When meeting with the Audit Committee on December 6th, 2006, the Director of INT was told to provide more information on the department's effectiveness and productivity, in light of the falling indicators and rising budget under her management.²⁶

To explain the drop in case closures when the annual report was publicly released, the director wrote:

Since the last report on investigations, the Integrity Department has seen a continued trend toward more complex cases involving multiple contracts and more sophisticated ways of hiding illicit activities.²⁷

While this is undoubtedly the situation, presumably the significant increase in funding made available to INT would allow the department to keep pace by increasing capacity. At the very

²³ For comparison purposes, we are using data from FY04 and FY06 because the case closure figures for FY05 are anomalous. The current director of INT undertook a 'case closure review' of FY05 external cases closed under her predecessor. The incentive for this exercise is not clear, but it was time and labor-intensive. The review included 133 cases. "INT determined that 125 (95 percent) were deemed to be *Justifiably* closed; 6 cases (5 percent) the reviewers were not able to make a determination and consequently rated them *grey*, but after culling all necessary missing documentation, INT reviewers determined that there were *zero* cases closed *Unjustifiably* (*Annual Integrity Report*, p. 12).

²⁴ The number of cases opened also fell in FY06 by nearly 20 percent, from 354 in FY04 to 252.

²⁵ 2005-2006 *Annual Integrity Report*, p. 7.

²⁶ AC2006-0119.

²⁷ 2005-2006 *Annual Integrity Report*, p. iii.

least, the increase in resources, the elevation in priority at the Bank, and the commitment of the new president to an anti-corruption agenda should have allowed INT to *maintain* its case closure and case investigation volume. The decrease in the number of investigations carried out was peculiar, given the favorable circumstances in which INT was to operate under Paul Wolfowitz. We can only conclude that resources were being spent less productively in FY06 than in previous years, a circumstance that makes the suspension of the 2007 audit of INT is especially regrettable.

We cannot say much more about this report, except to note that whole paragraphs of it were lifted virtually verbatim from the first annual report issued two years before. Although some of this repetition is understandable and facilitates a comparison of data, much of it includes conclusions drawn from data presented for FY04 and is therefore inappropriate.

IV) INVESTIGATIVE PRACTICES

Three knowledgeable respondents interviewed by GAP about the investigative practices at international organizations, as well as at INT specifically, largely coincided in their opinions. In general, an institution like the World Bank depends heavily on information from its own staff for monitoring projects and operations. The Bank is a complex, multicultural, multinational institution. It lends over \$20 billion annually. No investigative unit could have the capacity to review even a restricted sample of operations systematically in such a setting. Moreover, as Ms. Folsom points out in the FY05/06 annual report, forms of illicit behavior are fluid, sophisticated and limitless. Consequently, the individuals best positioned to 'blow the whistle' on misconduct are staff members themselves and the consultants who report to them.

As a result, the first responsibility of INT is to serve as a liaison with staff and to build a relationship of mutual respect and trust. To be effective, INT must maintain a perception among staff as a department characterized by impartiality, fairness and confidentiality. According to one respondent, staff members are 'the eyes and ears' of INT. They must have confidence that their allegations will be investigated objectively, their identities will be protected when necessary and misconduct will be addressed.

To accomplish this, clear, specific written guidelines on investigative practices should be communicated to staff and followed at all times. Liaison relationships between INT and all other departments must be strengthened and consolidated. If an investigative unit becomes isolated for lack of these relationships, it becomes, by default, uninformed and unable to function effectively. Unfortunately, this is what seems to have happened at INT over the past two years.

The annual report for FY05/06 shows that Bank staff and consultants were the source of 32 percent of allegations of misconduct reported to INT in both years covered. The report views this figure as a measure of confidence in the department:

In terms of the sources of allegations, the share of cases reported by Bank staff (mostly task team leaders and procurement and financial management specialists) has continued

to rise – up from 26 percent in fiscal 1999 to 32 percent in 2005 – reflecting in part a growing awareness of the institutional integrity function within Operations.²⁸

This statement and the accompanying figure in the annual report grossly distort the true trend in internal reporting. In fact, in fiscal year 2004, Bank staff and consultants had been the source of 56 percent of the allegations made to INT, and apparently their confidence in the department dropped significantly (to 32 percent) by the end of fiscal 2005, when department leadership was in transition. Nor was it restored by current INT leadership in 2006, when the figure for internal reporting remained at 32 percent for the year.

GAP's respondents detailed anecdotally the concerns of Bank staff and consultants about the investigative practices of INT with respect to both internal and external allegations. They contend that breaches of confidentiality, lack of consultation with staff or affected government counterparts, a presumption of guilt in some cases and suppression of evidence in others, *ad hoc* procedures and amateurish technique all combined to undermine the confidence staff might have had in the department's capability. In addition, GAP's respondents reported that confidential information about ongoing investigations routinely 'leaked' to another of the president's counselors.

A) External Investigations

Uniformly, Bank staff whom GAP interviewed reported a "New-Sheriff-in-Town" attitude at INT with the arrival of Paul Wolfowitz and the appointment of Suzanne Folsom as department Director. The new president, together with his new counselors, wished to "send everybody a message" about tougher anti-corruption investigations and standards. However, it appears that in four instances that we examined, this rhetoric did not match reality. In two cases, the standards were applied clumsily and offensively. In a third case, an exception was made for political convenience. The standard to be used to issue a finding of corruption in the fourth case are unknown.

1) India

INT began its investigation into allegations of corruption in the Reproductive and Child Health (RCH) Project in India in late 2000. The process was extremely protracted and controversial, both inside and outside the Bank. Apparently, in the final phase of the investigation, conducted under the current director, INT confronted regional staff members in an adversarial manner and treated a number of them as if they were corrupt agents, without producing any evidence that would substantiate such a view. Because INT alienated the staff operating in India, the department conducted its investigation without informational grounding in the context surrounding the project, and was therefore 'flying blind' with respect to the concerns of the Indian authorities and other donors involved in the project. In this case, INT invented a conflict of interest where none necessarily existed and operated accordingly, to the detriment of the project, the borrowing country and the Bank.

²⁸ 2005-2006 Annual Integrity Report, p. 9.

During the last phase of the investigation, the department was not systematic in determining the reach of its own activity. INT determined for itself what information would be reported in what form to the Bank president, as well as to Indian authorities. Respondents interviewed by GAP contend that confidential information informally changed hands between Ms. Folsom and Ms. Cleveland, leading to unexpected demands to alter agreements already negotiated with the Indian authorities over subsequent actions to be taken to address the problem project.

Reportedly, information gathered from INT about its investigation in India was also misleading on several occasions. Among other problems, those affected by the investigation reported that the attitude at INT was hostile toward project staff and lacking in clear guidelines and policies. As reported elsewhere, INT investigators seemed inclined to view a difference of opinion as evidence of complicity in corruption rather than as indicative of an alternative avenue of inquiry that might be pursued.

2) Cambodia

In some ways, the investigation into allegations of corruption in Cambodia reprised the problems found in the larger-scale exercise in India. In the wake of an investigation and on the orders of the president, the Bank froze loans for seven projects, some of which were indefinitely suspended and others of which were simply delayed. These actions were taken in response to a 'very general' report barely four pages long. According to GAP's source, the report was uninformative largely because Mr. Wolfowitz instructed INT to stop cooperating with operations staff in the region. Again, the tendency to view Bank staff as complicit in corruption blinded INT to important sources of information and led investigators to work in an amateurish and unilateral fashion. GAP's respondent explained the situation this way: "By having minimal contact with the Cambodia staff, country director or any of the nationals, they (INT investigators) had no guidance on how to deal with the government. The inquiry turned into a huge fiasco, costly to government, and it put nationals in jeopardy. Presumably, there should be a better way."

3) The Democratic Republic of the Congo

In response to allegations of corruption in three projects, INT assembled a mission of investigators to travel to the Democratic Republic of the Congo (DRC) in March of 2006. Among the allegations were assertions of diversion of funds from the National Commission for Disarmament, Demobilization and Reinsertion (CONADER), the counterpart agency chosen to implement the \$100 million Emergency Demobilization and Reinsertion project, one of the suspect operations.

The timing of the mission was politically sensitive, as Joseph Kabila, President of the DRC, was running for re-election in July against a strong rival, Jean-Pierre Bemba. In May, 2006, the investigating team delivered a complex paper to Ms. Folsom synthesizing the findings of multiple inquiries and focusing on Finda Koroma, a companion of President Kabila and president of FK Consulting. According to those interviewed by GAP, the report contained hard evidence of corruption on the part of Kabila and Koroma involving the demobilization project and two social projects.

After being delivered to Ms. Folsom in May, little was heard about the report. Two months later, elections held in the DRC on July 30th did not give either Kabila or Bemba a majority. After another two months had elapsed, the report had still not been issued and, amid violent protests, a run-off election was held, pitting Kabila against Bemba. After a delay of nearly one month, Kabila was declared the winner on November 15th, 2006.

While the political events unfolded in the DRC, pressure from the Office of the President came to bear on the investigators who had undertaken the mission in March. GAP's sources assert that Joseph Kabila lobbied Paul Wolfowitz personally to have the report suppressed. At the behest of Wolfowitz's office, Ms. Folsom requested memos from the investigators, telling them they would have to defend their decision to question Finda Koroma and affirm that Koroma's interrogation had been conducted with respect.

Throughout 2006, World Bank lending to the DRC was halted, but it resumed in March, 2007, shortly after Mr. Wolfowitz visited Kabila in Kinshasa. On the occasion of his arrival in the DRC, Wolfowitz told his audience:

A successful Congo would have major positive effects for the entire region and its many neighbors, but even more importantly for the millions of Congolese who deserve to benefit from improved management of this country's richness which includes both its natural wealth but also its human potential....It will take the kind of commitment that we have seen this new government start to show. I am particularly encouraged that in the recent presentation to the Parliament the Government presented a very ambitious plan for improving and strengthening governance in this country. It is going to take honest and wise leadership and energy and commitment from the people.²⁹

Exactly three weeks later a \$180 million emergency aid and social rehabilitation project was approved by the Bank for the DRC. The report of the March, 2006 mission to the country has never been released, despite repeated requests for it.

4) Armenia

On February 27th, 2004, a consultant to the Parliament of Armenia reported to the World Bank country manager in Armenia that the Municipal Development Project, which would privatize the water system in Yerevan, had been corrupted. The whistleblower, a current GAP client, told the country manager that – among other fraudulent circumstances surrounding the project – the Authorized Representative of the company that won the concession of the Municipal Development Project was improperly appointed director of the Yerevan water company. The parliamentary consultant provided detailed documentation to substantiate additional claims:

- Project objectives and targets had been improperly altered;
- Deficient material had been used in the construction of a reservoir;

²⁹ Arrival statement of Paul Wolfowitz, March 8, 2007, Kinshasa, DRC.
<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21249792~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

- Water meters had been purchased with project funds yet the revenues went unrecorded;
- “Ghost” consultants had been extensively used;
- Company accounts had been manipulated in annually audited financial statements, resulting in the embezzlement of public funds.

On June 30th, 2004, the consultant contacted INT directly asking for assistance in obtaining the accounting records of the Project Management Unit (PMU). In response, INT suggested that he contact the PMU, the director of the Yerevan water company or the Ministry involved. In other words, INT directed the consultant to obtain the information from the very individuals and offices that he had reported as complicit in the fraud. The INT Integrity Officer in his reply advised that he would forward the request to the Task-Manager of the project in the Bank for his information and to the Country Manager, which *de-facto* precluded any chance of confidentiality.

The fraud appeared to be ongoing at the end of 2006, and the consultant contends that he has been the subject of damaging reprisals because of his involvement in the study. Consequently, the case was resubmitted to INT by GAP in March, 2007. The British Government has had details of the problems since the time of the study in 2004, and INT is aware that the UK’s Serious Fraud Squad is monitoring the proceedings. Despite repeated phone calls and a letter requesting information, neither GAP nor the consultant have been able to ascertain the current status or prospective calendar of the investigation in the five months that have elapsed.

5) Observation

In the four investigations cited here, a lack of procedure and expectation for *formal* reporting to governments and *officially* requiring a response from them is evident. Reports appear to land on the director’s desk and the steps followed after that cannot be predicted. In India, national authorities were contacted in an erratic fashion, while a cooperating donor was not informed that project disbursements were to be suspended. In Cambodia, authorities were told that corruption affected seven projects but that evidence documenting fraud could not be presented to them. In the DRC, a politically inconvenient report was suppressed during a presidential election. In Armenia, nothing at all has occurred, despite meticulous documentation of fraud and repeated requests for investigative support.

The report of the Audit Committee to the Board cited earlier reflects the committee’s unease with INT’s seemingly optional approach to informing affected officials and correcting wrongdoing:

INT management said that referrals [to governments] are prepared in consultation with LEG (Legal). *Usually* (emphasis added) the respective EDs (Executive Directors) are informed that a referral will be made, after which the report is provided to the respective national authorities. Referrals are an opportunity for INT to share information and

techniques with the relevant parties to take additional action. This form of capacity building has received positive feedback, according to INT.³⁰

It should not be necessary to point out that referrals of evidence that document corruption affecting World Bank projects and misuse of public funds must be seen as more than an opportunity to take additional action.

B) Internal Investigations

Respondents to GAP's inquiries about internal investigations first reported that, under the previous department director, INT maintained a strict separation between internal and external investigations. Nonetheless, the impartiality, transparency and consistency of the procedures used to conduct internal investigations did, of course, influence the character of the relationships between INT and Bank staff, which in turn, affected the confidence staff members had in coming forward with allegations of external misconduct.

Earlier we referred to data showing a precipitous drop in the percentage of allegations received by INT from Bank staff and consultants during the past two years. According to our respondents, a number of factors contributed to this loss of confidence in INT. First was the failure on the part of the department to guarantee confidentiality to whistleblowers. Several staff members we met with described the conviction that information about investigations of other Bank employees frequently 'leaked' both inside and outside INT.

The reporting procedures used by the director in dealing with the president's office contributed to this impression. Under Paul Wolfowitz and Suzanne Folsom, INT took on the job of policing and fixing problems, as well as investigating them. Structurally, INT became central to the decision-making going on in the president's office and this was widely known. The porous boundary between the president's office and INT contrasted with a strict separation between the two under James Wolfensohn. When INT management met with Wolfensohn, he alone was present and he was briefed in generalities about the caseload. Only when there was an imminent possibility that news of a particular investigation could damage the reputation of the Bank, was the president informed about the specifics of a case. This tended to occur only two or three times a year.

In contrast, when Suzanne Folsom became the director of INT, meetings with the president's office began to involve additional personnel. Often Counselor to the President Robin Cleveland was present, together with others she would invite to attend meetings that dealt with privileged information. On these occasions the invitees would come and go from meetings at which privileged information about other staff members was disclosed. Often, too, Ms. Cleveland would ask questions concerning particular cases still under investigation and demand answers.

Staff members report the following complaints about the way in which internal investigations are conducted:

³⁰ AC2006-0119.

- The basis for prioritizing internal cases has never been clear. Apparently, Ms. Folsom's position as counselor to the president has led staff to believe that cases are selected for investigation based on the president's agenda;
- A presumption of guilt is often perceived;
- Investigations are not separated from judgments, although judgments are the responsibility of the Department of Human Resources or the Sanctions Board and not INT;
- Standards of proof in internal investigations of misconduct are unclear;
- Confidentiality is often breached; staff members discover they are being investigated through third parties.

Perhaps the most disturbing breach of confidentiality occurred when the INT Director herself divulged to the entire Executive Committee of the Staff Association the confidential and still preliminary conclusions reached by INT regarding a sensitive investigation targeting a staff member. This unprecedented public disclosure occurred approximately two months before the conclusions of the investigation were transmitted to the Vice President for Human Resources or to senior management.

Although these lapses occur, little has been done to correct them, and the director proceeds as if they had not happened. In the Annual Report for FY05/06, Ms. Folsom wrote that the department was taking a more proactive approach to corruption through closer collaboration with Bank staff:

Many of these efforts have required INT to become more closely aligned with Operational staff. This has been welcomed by INT as well as by Operational staff, as evidenced by, for example, a sharp increase in the demand for advice on the strengthening of anti-corruption safeguards in projects.³¹

In light of the data on INT personnel problems, a declining percentage of allegations reported by Bank staff, falling case closure rates and numbers, and a widespread perception of taint in the department, this statement seems not entirely straightforward.

Finally, it should be noted that investigations into certain internal misconduct cases, (particularly sexual harassment cases) do not begin until months after the allegations are made, although in cases of harassment victims often require immediate relief through interim measures of protection. This lack of immediate action on urgent matters has left staff uncertain about the manner in which INT triages investigations.

CONCLUSIONS

Over the past decade, corruption has emerged as a stubborn impediment to the World Bank's professed mission of fighting poverty in the developing world. The Bank itself has moved from a position of silence on the issue toward one of institutional commitment to recognizing and

³¹ 2005-2006 Annual Integrity Report, p iii.

addressing it. The Department of Institutional Integrity has been a central force in the Bank's evolving commitment.

This report shows, however, that the department has steadily lost focus since FY05. Our interviews and documents show the following difficulties at INT:

- The department has become isolated from Bank staff and its own staff members feel intimidated;
- Conflicts of interest involving prominent people associated with the department have damaged its credibility;
- A substantial enhancement of resources has failed to produce a corresponding boost in achievement.
- The department lacks sufficient diversity and is widely seen as a province of US nationals closely connected to the agenda of the Republican Party in Washington, D.C.

To be effective, INT must establish itself as an ally of Bank staff in anti-corruption efforts on the one hand, and as an independent investigator on the other. The many people GAP has interviewed for this report recognize that this is not a simple task. It requires leadership that has unimpeded access to the Bank president, as well as the integrity necessary to tell him things he may not want to hear. It requires structural independence at the same time that it requires systemic integration into Bank operations. Perhaps most importantly, it requires an explicit set of procedures for prioritizing cases and investigating them, as well as the authority and flexibility to go where the evidence may lead.

Fortunately, the future evolution of INT does not have to occur in a vacuum. Practices and experience exist to orient the changes that are needed. This experience shows that high-quality internal investigations must be based on a number of principles:

- Integrity is the touchstone of ethical conduct and the department must demonstrate this quality in its procedures, ensuring compliance with established codes of ethics and practice.
- Objectivity is a fundamental element of integrity. Objectivity imposes the obligation to be impartial, intellectually honest and free of conflicts of interest.
- Judicial temperament must characterize investigators and managers: they must suspend judgment and synthesize evidence prudently.
- Confidentiality must be respected, and an ethic of protecting privileged information, together with the source of that information, must be strictly enforced.

Above all, a department such as INT must abolish the threat of reprisal. The governance crisis at the Bank earlier this year is a dramatic example of what becomes of an organization that punishes its own for reporting misconduct.

For the future, we have three recommendations, all of which would enable INT to take the steps necessary to enhance both its independence and its authority, while recognizing that independence is a double-edged sword. At the same time that INT must not be captured by

either the president or the board, neither can it be isolated from them. It must especially cultivate close working relationships with regional staff.

First, the Bank would benefit from the establishment of an office of managing director for oversight services, a single office that is responsible for both investigations and audits at a level of authority that strongly encourages compliance. As one respondent pointed out, INT is not an attorney general. The department cannot issue subpoenas. For evidence, witnesses and investigators are largely dependent on good will and good faith, together with an institutional dedication to anti-corruption efforts. To a certain extent this office would have to fulfill the functions of investigator, auditor and prosecutor. An attorney must head the office because, in the final analysis, the managing director for oversight services would have to determine in each case whether the evidence warrants action.

Secondly, INT must have a deeper commitment to eliminating even the appearance of conflicts of interest. This problem has crippled the department since the beginning of Ms. Folsom's tenure. As department director, she was too close to the former Bank president and one of his counselors. Rather than directly confronting this issue and publicly laying out the measures taken to prevent bias, she simply denied that the conflict existed. Few were convinced.

Finally, INT must operate according to an explicit set of procedures for triaging cases, investigating them and reporting findings to Bank and national authorities. If guidelines are in place and they are respected, this alone can go a long way toward eliminating conflicts of interest. Without robust guidelines, the reputation of the department has become suspect, and many staff members have come to see it as a unit that punishes those who report misconduct and fails to investigate those who are guilty of it.

The interviews conducted, as well as the documents presented, also show that immediate steps must be taken to address acute but persistent problems at INT. To rectify these problems:

- The department director should renounce one of her two positions. To work with integrity, she may be either counselor to the president or director of INT, but not both.
- The relationship between INT and Diligence, LLC, should be fully examined and all financial transactions between them should be disclosed.
- The report of the 2006 INT investigation concerning three DRC projects must be released.
- Serious allegations of large scale fraud in the Municipal Development Project in Armenia must be investigated.
- The audit suspended in March, 2007 must resume immediately

Over the longer term, the following strategic actions could be taken to improve INT processes:

- The department should establish a credible selection process for personnel appointments and promotions that is consistently transparent and fair. Lack of diversity and a preference for Americans must be corrected.
- Steps should be taken to improve department morale and productivity. The high percentage of people on Performance Improvement Programs, the low percentage of completed Overall Performance Evaluations, and elevated rates of staff attrition all

suggest widespread dissatisfaction among INT staff that is negatively affecting performance.

- External investigations must be expeditious, thorough, systematic and impartial. Findings should be integrated into Bank policy, as well as into prevention measures.
- Internal investigations must be conducted objectively and confidentially. Many staff members report that, currently, there is often a presumption of guilt, a failure to keep investigations separate from judgment, a frequent breaching of confidentiality, and a prioritizing of internal cases according to the agenda of the president's office.
- Explicit and transparent procedures for triaging and investigating cases must be implemented.
- Efficiency must increase as measured by the number of cases investigated and closed annually.
- Formal, transparent regulations for reporting case findings to Bank authorities, national authorities, affected communities and the public must be developed, disclosed and implemented.

On the structural side, strategic recommendations include:

- Establishment of an office of managing director for oversight services with an impartial attorney at the head. The office should be given the responsibility for both audits and investigations, and must have the authority necessary to enforce compliance with Bank rules, regulations and oversight procedures.
- Establishment of the terms of appointment for the director of INT: a five-year fixed term contract, renewable once. Criteria for renewal should include an evaluation of case opening, closure and carryover data, as well as the ability to integrate anti-corruption safeguards into lending policies. Renewal should be authorized by the Board of Directors on the recommendation of the President.
- Measures should be adopted to effectively prohibit conflicts of interest at INT.