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**First Inter-American Conference
on the Problems of Fraud
and Corruption in Government**

Final Report



**Miami, Florida
December 4 - 6, 1989**

GENERAL CONCLUSIONS OF THE CONFERENCE

Effective control of corruption has to start with leadership positions. When a leader does not understand the concept of honesty, or the difference between his own benefit and the benefit of society, there is little hope for success in the rest of the government structure.

In these circumstances, corruption will continue to pervert the entire system--from the highest levels to the lowest. Public officials will create superfluous needs for the sole purpose of self benefit without considering the common good.

In addition to demanding honest leadership, control of corruption requires high standards of ethical and moral conduct on the part of all public servants so as to demonstrate the political will of the government.

All public servants should be required to publicly accept their responsibility to effectively and efficiently manage the resources at their charge and to be fully accountable for them. They should be able to provide an explanation for their actions that may be verified at any time.

"...professionals in the areas of finance, information, auditing and accounting have the personal duty to positively influence the executives of the public and private enterprises where they work."

Members of society should also be encouraged to demand these public obligations. To that end, professionals in the areas of finance, information, auditing and accounting have the personal duty to positively influence the executives of the public and private enterprises where they work. The national and international professional institutions and associations of each country should initiate broad public relations programs through every possible medium--newspapers, radio, television, etc. An information bank on these topics would be useful for all the countries involved.

A specialized external audit unit within the Supreme Audit Institution is needed to evaluate internal control systems continuously and methodically, and verify that they function adequately, proposing adjustments as deemed necessary.

Internal control evaluations should also be required as a part of institutional responsibility. Managerial information should include financial and operating data to facilitate decision making and reduce the possibility of fraud and corruption.

Credibility, personal integrity and high standards of professionalism are essential for combatting corruption. But protection of the public against corruption is also rooted in the democratic system. This implies the constitutional protection of the rights of public officials. Avoidance of corruption can be found in the successful establishment of the democratic process, a solid division of powers in government, constructive opposition and a free press.

Participants agreed that a second Inter-American Conference should be held, organized and sponsored by the organizations that sponsored this one and that other groups should be invited to participate.

TABLE OF CONTENTS

I. INTRODUCTION

II. COSPONSORS

III. WORKING GROUP SUMMARIES

Narcotics and Corruption

Corruption in Public Contracting

External Pre-control: A Mechanism for Extortion

Effective Financial Management as a Limit to Corruption

Professional Organizations and Means of Communication

Diversion of Funds Donated or Provided by Development Assistance Programs

Ethics versus Corruption

Corruption and Debt

Politics, Government and Corruption

IV. GUEST SPEAKER SUMMARIES

Ambassador Edwin G. Corr

Charles L. Dempsey

Edward J. Haller

Juan R. Herrera

Antonio Sánchez de Lozada

Basil Buck

James B. Durnil

Dr. José Luis Devoto

Brigadier General (r) Solón Espinosa

V. CLOSING REMARKS

I. INTRODUCTION

The idea of organizing a conference addressing the issues of fraud and corruption in government came as a result of the A.I.D.-sponsored Workshop *Improvements Needed in Managing Public Resources in Latin America*, held in December 1988. Heretofore, the delicate issues related to honesty and integrity in government have not often been addressed at the international level. The participants at that conference concluded that "without greater attention to the problem of dishonesty, all efforts made to improve financial management systems will be in vain." The Inter-American Conference on Problems of Fraud and Corruption in Government became a first step in the ongoing process of seeking ideas and solutions to the problem of fraud and corruption in government.

The Conference was held in Miami, Florida, December 4th to 6th, 1989 and sponsored by 14 professional organizations. The conference was attended by 140 participants, representing 29 Latin American and Caribbean countries. Distinguished participants came from a broad range of professions, including officials from the judicial and legislative branches of governments in Latin America and the Caribbean, auditors, comptrollers general, attorneys general, representatives of the media, of professional associations, the diplomatic services, and the armed forces. Simultaneous interpretation was provided in Spanish and English for the plenary services.

The main goal of the conference was to provide a forum for presenting the diversity of viewpoints and ideas on the topic of fraud and corruption in government in Latin America and the Caribbean, and allow a free and open interchange on the common issues and problems in the different governments of the region. Plenary sessions featured speakers with broad experience in facing these issues.

Participants were encouraged to discuss issues raised in the different presentations and come up with suggestions to improve the management of public resources in their own countries. To this end, conference participants were assigned to working groups based on their indications of interest to discuss more specific topics under the theme of fraud and corruption. Specific observations and recommendations were compiled in each of the groups listed in the table of contents and are presented in summary form in this report.

The conference was financed through A.I.D.'s Regional Financial Management Improvement Project for Latin America and the Caribbean and organized by Price Waterhouse, the project contractor.

II. ACKNOWLEDGEMENTS

We would like to acknowledge and thank the different organizations, individuals and participants that made this Conference a success:

Cosponsoring Organizations

Inter-American Accounting Association
Inter-American and Iberian Public Budgeting Association (ASIP)
Latin American Institute of Auditing Sciences (ILACIF)
Institute of Chartered Accountants of the Caribbean
Latin American Association for Public Administration (ALAP)
International Consortium on Government Financial Management
Ethics Resource Center
Institute of Internal Auditors, Inc. (International)
Institute of Internal Auditors of the Dominican Republic
Institute of Internal Auditors of Costa Rica
Mexican Institute of Internal Auditors
American Consortium on International Public Administration
Association of Government Accountants of the United States
Colombian Association of Financial Management Officials

Speakers

Mr. Juan Herrera
Ambassador Edwin G. Corr
Mr. Charles L. Dempsey
Mr. Tom J. Craren
Mr. Edward J. Haller
Mr. Antonio Sánchez de Lozada
Mr. Basil Buck
Mr. James B. Durnil
Dr. José Luis Devoto
Mr. Gary Edwards
Dr. Luz Aurea Saenz Arana
Brig. General (r) A. Solón Espinosa
Mr. Hugo Pérez Cajiao

Moderators

Mr. Fabio Jiménez Mejía
Mr. Aulous Madden
Mr. Edison Estrella
Mr. David Jones
Mr. Víctor Abréu
Mr. Luís Barahona
Mr. Jorge Barajas
Mr. Horacio Muscia
Mr. Hugo Pérez
Mr. Alfredo Miño
Mr. Remigio Duran
Mr. Samuel Stewart

Countries Represented

Antigua

Audit Office
Ministry of Finance

Argentina

Chief Government Corporate Auditor
Court of Accounts
Office of the President of the Nation

Barbados

Government of Barbados
Ministry of Finance

Belize

Auditor General's Office
Ministry of Finance

Bolivia

Comptroller General's Office
Court of Justice
House of Deputies

Brazil

Ministry of Budget
Ministry of Finance

Chile

Comptroller General's Office

Colombia

Comptroller General's Office

Costa Rica

Comptroller General's Office
Ministry of Finance

Dominica

Government of Dominica
Ministry of Finance

Dominican Republic

Comptroller General's Office
Dominican Public Enterprises
Corporation
General Tax Division
Reserve Bank of the Dominican
Republic
Superintendency of Banks

Ecuador

Comptroller General's Office

El Salvador

Grenada

Ministry of Legal Affairs

Guatemala

Comptroller General's Office
Ministry of Public Finance
National Congress

Guyana

Accountant General's Department
Ministry of Agriculture
Office of the Auditor General

Haiti

Industrial Development Fund
Ministry of Economy and Finance

Honduras

Comptroller General's Office
Ministry of Finance and Public Debt
National Electric Energy Company

Jamaica

Comptroller General's Office
Ministry of Finance and Public
Service

Mexico

Comptroller General's Office
Legislative Auditor General's Office
Ministry of Finance
National Congress

Pakistan

Auditor General's Office

Paraguay

Judicial Branch
Ministry of Finance
National Congress

Peru

Comptroller General's Office

St. Lucia

Audit Office
Ministry of Finance
Solicitor General's Office

St. Vincent & The Grenadines

Ministry of Finance and Planning
Solicitor General's Office

Suriname

Government Accounting Office
Supreme Audit Institution of Suriname

Trinidad & Tobago

Ministry of Finance

United States

Agency for International Development
Department of State

Uruguay

Ministry of Transportation and Public Works
Office of the President of the Republic

Organizations Represented

ANAGSA (Mexico)
Asociación Colombiana de Funcionarios Manejo
Banco Municipal Autónomo de Honduras
Castellanos Campos y Cía
Central American Economic Integration Bank
COHDEFOR (Honduras)
Coopers & Lybrand
Caribbean Institute of Chartered Accountants
Dempsey & Riso
Despacho Manuel Duran Silva, S.C.
Florida Atlantic University
FONART S.E.P. (Mexico)
Gleaner Company Limited
Honduran Coffee Institute
INJUPEMPH (Honduras)
Institute of Auditors of Costa Rica
INTERBANC (Peru)
Inversiones Cofide SA
Latin American Public Administration Association
Marina de Guerra del Peru
Patronato Nacional de la Infancia (Honduras)
Price Waterhouse
School of Public Accountants of Costa Rica
Universidad Católica de Valparaíso
Universidad de Puerto Rico
Universidad Federal, Rio de Janeiro

III. WORKING GROUP SUMMARIES

Narcotics and Corruption

The amount of money that changes hands through drug trafficking is surpassed only by the money resulting from arms trafficking. The power of acquisition generated by this tremendous amount of money has caused all areas of society to become vulnerable. Drug trafficking threatens to overcome the legitimate authority of legally constituted governments and thus requires the joint action of all countries concerned.

The consumerism that characterizes modern society combined with the low salary scales normally prevailing in the public sector make public officials—particularly those at lower levels—especially vulnerable to corruption. It can also make prisoners of members of the armed forces and the police forces. Not even public officials responsible for the administration of justice escape the influence of drug trafficking. Some give in to the temptation of the large quantities of money offered in exchange for favors. Those who resist that temptation often become prisoners of threats made against them and their families. In some countries, even legislators and other citizens who exercise political influence fall prey to drug money.

Recommendations

All the group participants expressly indicated that they were in agreement with coordinating criminal legislation on an international level so that the punishment for drug trafficking would be consistent across country borders. Participants also agreed on the need for national legislation in their own countries to facilitate extradition of drug criminals. In addition, special police forces should be formed within country borders to address the drug trafficking problem.

"The consumerism that characterizes modern society combined with the low salary scales normally prevailing in the public sector make public officials—particularly those at lower levels—especially vulnerable to corruption."

It can also make prisoners of members of the armed forces and the police forces. Participants suggested that measures be developed for substantially increasing the compensation of public officials to fend off corruption—particularly for those having jurisdiction over drug trafficking. More focus should be placed on the "newly rich," and the questionable legitimacy of quickly acquired fortunes. One way to exercise this type of control could be a sworn declaration of properties and debts by individuals assuming and departing from public office, a verification process and strong sanctions for improper declarations.

Focus should not be placed just on eradicating drug production within countries where it is widespread. Efforts should be made to find substitute products that can be promoted in the place of drugs, providing markets for those products and adequately nurturing the substitute production process. Only in this way can the economic incentive to produce drugs be eliminated.

Finally, there was some discussion of legalizing the consumption of drugs as a means of undercutting the large profits in the drug production industry. While no consensus was reached on this point, it was agreed that such action would not provide a total solution to the problem.

Corruption in Public Contracting

A large percentage of the contracts entered into by governments has not been based on the standard norms of public contracting--that is, setting up a competitive bidding process that is well publicized and that ensures selection of the most efficient and economical contractor. In some countries, favoritism governs the contract selection process in the name of "social justice." Very closed societies, such as island countries, suffer a particularly high probability of having patronage ingrained in their national culture.

"...the execution of contracts and payment processes is excessively slow, which raises the final price of the contractor's product."

Bidding specifications are frequently deficient in terms of identifying materials and equipment and their required characteristics. Overly generalized terms of reference then result in equipment and materials of less than adequate technical quality being used. Moreover, in some countries the preparation of competitive bidding terms of reference and the knowledge of technical proposals lie exclusively with the contracting agency. The fact that these agencies are not subject to control of any type introduces the likelihood of corruption into the public contracting process.

Working group participants agreed that the receipt of goods and services in the majority of countries was slow, and that in some cases contractors bribe officials to accept late delivery. Likewise, the execution of contracts and payment processes is excessively slow, which raises the final price of the contractor's product. Fraud and corruption also enter into the public contracting process through the use of goods and services for purposes other than those for which they were acquired. This practice raises the price of government acquisitions since payment for the illegal services is added to the invoice value of the goods or exacted through a reduction in the quality of those goods. The resulting higher cost of this misuse of contracted goods and services is, of course, then passed on to public entities.

Many countries have also not established just-basis procedures for calculating the cost of inflation for public works contracts. In at least one country, the index used to determine inflation cost increases was entrusted to the contracting firms that stood to gain from any price increases.

Recommendations

Participants almost unanimously agreed that there is a great need to define clear, precise and transparent standards for public contracting instead of relying on more general civil law, which is too broad to address the issues pertinent to this process. In addition, a distinction needs to be made between civil contracting and administrative contracting.

External pre-control should be limited as much as possible, and a progressive decentralization of many aspects of the public contracting process should be pursued. More controls should be put into place over the public contracting process since it is particularly susceptible to corruption, and both internal and external auditors should pay close attention to control efforts in this area. Mechanisms should be put into place to locate qualified contractors and place them on an approved national vendor list. "Whistle blowing" should also be encouraged among employees who have job responsibilities in the public contracting process.

External Pre-control: A Mechanism for Extortion

The centralized nature of government financial management concentrates the authority to make decisions, and this leads public officials to sometimes put a "price" on their privileged services. This problem is particularly prevalent in contracting for public works, centralized treasury functions, the purchasing of goods and services, and the offering of employment in public services.

"Multiple levels of external pre-controls result in a false sense of security in which no one becomes really responsible but every participant is tempted to "charge" for participating in the approval process."

Public officials who exercise external pre-control are the only public servants not integrated into the hierarchy of the agency where they work and are not accountable for the decisions they make or actions they take. In this way external pre-controls actually contribute to corruption rather than prevent it.

Multiple levels of external pre-controls result in a false sense of security in which no one becomes really responsible but every participant is tempted to "charge" for participating in the approval process. Moreover, the amount of funds recovered through these levels of pre-control does not justify the additional cost of providing human resources to perform this function throughout the public sector.

Pre-controls also prevent the development of standard accounting and government audit procedures as a part of an administrative system for financial information and government control. The lack of these systems, in turn, impedes the development of organizational plans, which are fundamental to a functioning system of control.

Recommendations

In addition to strengthening the system of government management, it was agreed that an active plan for moral and ethical training for public servants is needed. This plan should be issued by the country's chief executive. In addition, all public servants should be required to publicly accept their responsibility to manage the public resources in their charge, and realize that they will be held accountable for these resources subject to verification at any moment.

"In some countries, there is no real national financial executive or "chief financial officer," despite the existence of a minister or secretary of finance, because of the degree of dispersion of financial responsibilities in the public sector."

The Supreme Audit Institution of a country should not be involved in pre-control activities in order to maintain its independence, objectivity and ability to perform independent audits. Its job, in this respect, should be to methodically evaluate internal control systems and verify that they are functioning adequately, proposing improvements as necessary.

Efficient Financial Management as a Limit to Corruption

In most of the participants' countries, modern financial management systems do not exist. Despite the fact that many have provisions in their laws which at least require preparation of agency financial statements, these are not prepared. In other countries, some semblance of financial management exists, but it is either incomplete or antiquated to the extent that it is not a useful tool to fight corruption. Generally, agency financial statements are not prepared because of the lack of accounting and information systems that make them possible.

In some countries, there is no real national financial executive or "chief financial officer," despite the existence of a minister or secretary of finance, because of the degree of dispersion of financial responsibilities in the public sector. Most countries have supreme audit institutions which are legally responsible for performing independent audits, but in many cases they do not perform this function efficiently due to either a lack of capability or professionalism, or a lack of sufficient independence from the institutions they are supposed to audit. Moreover, even when audits are performed, the majority of these countries do not have the instruments to adequately determine whether recommendations are being implemented, and therefore many of the improvements suggested by the supreme audit institution never get put into practice.

Recommendations

Even with strong systems of internal control in place, there is always the risk that fraud and corruption will take place in a way that is difficult to identify and root out. Therefore, it is imperative that adequate financial management systems be authorized, put into operation and continually improved.

While it is important to recognize the needs and structures of different institutions in each government, basic information permitting the administration of fiscal, financial and economic policies must be centralized. Public financial management should be structured through all levels of government—beginning at the top of the national government and reaching down through the different sectorial levels of the central government to semi-autonomous decentralized entities and finally to the institutional level. This structure should provide for the reliable and timely transfer of basic financial information from the agency level to the central government level.

Independent external auditors should be contracted as part of government auditing teams to both reduce overall costs and facilitate the transfer of technology from the private sector to the government through the auditors working on these mixed teams.

"Professional organizations also often have codes of "professional secrecy," which can impede the disclosure of information on the corrupt activities of members."

The Caribbean participant group also recommended a realistic budget required to serve as a standard of performance and as an instrument of discipline; monitoring and reviews to ensure compliance to procedures and laws; extensive training in accounting and related financial disciplines; specific determination of management responsibilities; and the imposition of disciplinary codes and penalties for breaking the law as well as a program to make sure these codes are understood.

Professional Organizations and Means of Communications

Professional organizations in participants' countries rely in most cases on an ethical code as the primary means of keeping members from being involved in corrupt activities. However, the result of this approach is that the organization only comments on a particular corrupt act after the fact, and even then only when it affects the organization's interests. Professional organizations are not carrying out any systematic programs or preventative actions to actively dissuade members from fraud and corruption.

Professional organizations also often have codes of "professional secrecy," which can impede the disclosure of information on the corrupt activities of members.

Recommendations

The organizations cosponsoring the conference should ask their members to prepare brief essays on professional responsibility for publication in their own journals and the

media. These documents should then be compiled as a data base available for use by all the organizations represented in the conference and others interested.

Auditors who in the course of their work are exposed to illicit acts that they are not allowed to publicly disclose may have to consider seeking another position as a drastic solution to this ethical dilemma.

Diversion of Funds Donated or Provided by Development Assistance Programs

It was unanimously agreed that public sector staff involved in financial monitoring of donor organization programs is very low. This lack of staffing increases the risk of funds being diverted. Moreover, persons responsible for managing or monitoring projects do not often visit the actual project sites, which limits timely exposure of irregularities in resource use.

"Some loans have been made by donor agencies without appropriate verification of need or probability of full utilization."

Conditionality clauses in loans or grants from donor organizations often result in more benefits accruing to the donor countries than to the countries receiving the funds. Some loans have been made by donor agencies without appropriate verification of need or probability of full utilization. There have also been some examples of loans that have been more directly in the interest of the lending government than the recipient country itself.

Often there appears to be a greater study and evaluation of projects prior to their approval than during their execution. Approval by the donor organization is also often based more on political considerations than on objective evaluations; moreover, the donor organization is frequently more focused on its own objectives than on the value received for its funds on a project-by-project basis.

Recommendations

Resources obtained by means of donations or loans are regularly confused with the general revenues of the country, thus creating a problem with separating these different sources of revenue for control purposes. Internal control and external audit should be comprehensive and cover all revenues from within the country as well as revenues from external donations or credits.

Sometimes it is necessary to place a country's project funds in a separate "special account fund" until it is used to reimburse money disbursed by the government. Otherwise, the legal impediments for withdrawing funds may be formidable and negatively impact on the project's execution. "Special funds" which are reimbursable

should be duly authorized in foreign exchange, and requirements made and enforced that local funds be provided as counterpart financing.

Ethics versus Corruption

Professional codes of ethics do exist in most of the professional organizations in the countries under consideration. The public sector has its own standards to regulate the performance of public duties and these include measures designed to punish improper behavior. In some countries of Latin America, however, there are either no codes of ethics or those that exist are not sufficiently disseminated to have any effectiveness.

Clearly the low pay levels for government employees contribute to the proliferation of fraud and corruption, but it is not this factor alone that creates the problem. Individuals of high social status and economic means have also been linked to corrupt activities, indicating that the problem also stems from a lack of ethical and moral principles. The standards and procedures that normally regulate both public and private activities constitute an intermediate plane between addressing the problem of corruption on the cultural level and the imposition of penalties for crimes. At present, these standards do not address the very real existence of fraud and corruption and at times are constructed in such a way that they hinder the process of deterring it.

"Clearly the low pay levels for government employees contribute to the proliferation of fraud and corruption..."

Recommendations

In order to reduce fraud and corruption on the cultural level, educational programs need to be instituted or updated in both the public sector and professional organizations to facilitate the understanding and application of ethics codes. To reinforce these changes, the justice system has to be strengthened in both structure and procedure to make corruption more effectively punishable by law. National governments should also facilitate community action against fraud and corruption by promulgating clear and easily applicable standards of ethics. The inculcation of value systems and democratic processes at the community level will greatly assist the process of eliminating fraud and corruption.

Corruption and Debt

Internal public debt has been incurred in Latin American countries as much through the issuance of fiduciary papers by the national governments and their sale to investors as through the drawing of credit by the central banks. It is also sometimes incurred through the provision of credit to local suppliers. External public debt is incurred principally through credits received from multilateral lending institutions, foreign governments and international commercial banks.

There is a coresponsibility between Latin American borrowers and donor organization lenders in managing loaned funds. Lenders have not always complied with their ethical responsibility by taking into account where borrowed funds were going or considering whether those funds could be paid back. The governments that have borrowed funds likewise have not always used the resources for the purposes of development, and therefore have not generated the increase in resources that would have allowed them to pay those funds back. Even in cases where they are used wisely, operational limitations are sometimes placed on funds by the executing agency and, as a result, they do not get used during the pre-established time frame. In this situation additional interest costs are charged to the country borrowing funds for holding them longer than originally agreed.

"Lenders have not always complied with their ethical responsibility by taking into account where borrowed funds were going or considering whether those funds could be paid back."

Opinions of participants from the Caribbean differed from those from Latin America, since the Caribbean countries have not received much credit from foreign commercial banks. Their major source of funds has been from multilateral lending agencies where lending procedures have generally been reliable and satisfactory. However, the loan negotiation process in these agencies is sometimes cumbersome and beyond the capacity of local governments to negotiate. This results in loans that include clauses and conditions that are less than ideal for the borrowing countries.

Participants also noted that in some cases the control mechanisms of multilateral lending agencies have been inadequate to avoid political patronage. Concern was also expressed about the level of competency in donor agency evaluations of the feasibility of projects.

Recommendations

The group suggested unanimously that during the loan negotiation process monitoring and control procedures be maintained at satisfactory levels in order to assure that borrowed funds are used for development purposes. External audit organizations should also train their staffs in technical areas related to public internal and external indebtedness as well as in the public debt negotiation process.

Multilateral lending institutions should exercise more extensive monitoring of the projects they fund and also show more empathy for the difficulties of debtor countries.

Politics, Government and Corruption

In general, political parties are much more prepared to take over the control of the government than they are to exercise power once they have come into office. In a democratic environment, they do a better job of preparing themselves to take and exercise power. In some countries, the deficiencies and limitations of democracy as well as the degree of corruption in certain political parties create fertile grounds for the growth of dictatorships.

The alliances of political parties with different ideologies sometimes results in the distribution of bureaucratic posts and other benefits becoming more important than seeking the common good. However, political parties in power should overcome this tendency and seek to satisfy the needs of their own society. This would be more likely to happen if the general public could avail itself of democratic channels to make demands of and put pressure on the governing political parties.

"The alliances of political parties with different ideologies sometimes results in the distribution of bureaucratic posts and other benefits becoming more important than seeking the common good."

In order to avoid the effects of corruption produced by political campaign financing, each country should have effective legislation regarding electoral processes. This legislation should prevent interference by both foreign and domestic governments in those processes. Each political party should also be required to publish financial statements, accompanied by the opinions of independent auditors.

The group participants agreed that illegal acts were commonly disguised as legal in their respective countries. Areas where this type of corruption is particularly common are the public contracting process and the selection and appointment of public officials.

Recommendations

Honest public officials can and should maintain their ethical standards despite the dishonest environment in which they must operate. The government should assist them in their efforts by consistently improving the remuneration of public employees. This effort should be founded on the notion that it is better to have a lesser number of well-paid public employees than a greater number of poorly paid ones. Efforts should also be made to change the government promotion system to be based on merit.

The Caribbean participants emphasized that the responsibility of political parties to carry out powers is intimately linked to the electoral system. Furthermore, the political responsibility associated with the exercise of power extends beyond the party in power to opposition parties. These parties should not act in a manner counterproductive to the legitimate exercise of power by the party in office.

IV. GUEST SPEAKER SUMMARIES

An American Ambassador's View of Corruption in Government

Edwin G. Corr, Diplomat-in-Residence, Political Science Department, University of Oklahoma, Former U.S. Ambassador to Peru, Bolivia and El Salvador

Ambassador Corr spoke on the importance of dealing with corruption and fraud in government financial management, pointing out that corruption is worldwide and that the implications for U.S. Government foreign assistance need to be better understood.

Corruption in the public sector can be defined as the legal and illegal actions of government and private sector officials which result in the misuse of the resources of the state for personal benefit. Corruption in government extends beyond the bounds of criminal acts to include a failure to maximize the use of taxpayer funds. All government officials are stewards of the public trust and are charged by law and moral accountability to efficiently and effectively use taxpayer monies.

"...effective development requires effective government, and effective government cannot exist with corruption."

A U.S. Ambassador has the same moral and legal charge regarding foreign assistance programs sponsored by the U.S. Government. Funds committed to these programs should be executed according to the law and the agreements under which these funds are supposed to be disbursed. This means that funds should reach the beneficiaries they are intended for and not be stolen or misdirected. A U.S. Ambassador also has an interest in making sure host countries use their own taxpayers' monies well. The U.S. Government supports the promotion of institutions and values achieving this end.

Unfortunately, a considerable percentage of the assistance funds disbursed by the U.S. Government must be committed to assuring efficient and honest project administration. Currently, over one-fourth of A.I.D. personnel serving in foreign countries are monitoring rather than implementing development programs. This is a costly, though necessary, use of development resources. Clearly, it would benefit both the donor and the grantee if host countries had better management and administrative systems to track funds disbursements. The U.S. Government should use its influence to promote such systems in order to encourage the proper and effective use of both U.S. and host country funds.

Although various other approaches have been tried over the years, effective development requires effective government, and effective government cannot exist with corruption. Therefore the solutions to minimizing corruption in order to have good government and more effective development include: systems that function, internal and external audits, strong budgeting and accounting, independent outside inspection, public disclosure and accountability, and criminal punishment commensurate with the gravity of an offense.

The Current Scandal in the U.S. Department of Housing and Urban Development

Charles L. Dempsey, Former Inspector General, U.S. Government Department of Housing and Urban Development

My subject today is the Department of Housing and Urban Development (HUD) scandal in the United States of America. Unfortunately, the three initials HUD have come to be associated with "sleaze, mismanagement and fraud." In the scramble to get the "gold," Congress has figured importantly, though not always constructively, in the history of HUD. Most of the time it was business as usual for politicians. Where HUD was concerned, those charged with oversight were scrambling to serve constituents in the housing industry, especially those who contribute to political campaigns. HUD political appointees, top career staff and Congress had all been warned since 1978 of problems in HUD operations and collectively they failed the oversight and accountability tests.

In 1978, the Inspector General Act created statutory Inspector General (IG) Offices within certain U.S. Government agencies as independent units conducting and supervising audits and investigations, preventing and detecting fraud and abuse, and keeping the Cabinet Secretaries and the Congress informed about problems and deficiencies and the necessity for corrective action.

"HUD political appointees, top career staff and Congress had all been warned since 1978 of problems in HUD operations and collectively failed oversight and accountability tests."

Congress, the Executive Branch and the general public rely on IGs to hold agencies accountable for the proper and efficient use of taxpayers dollars, to ensure that federal programs are meeting their intended objectives and to foster improved internal controls and fraud prevention. One of the most successful aspects of the IG community is its independence and objectivity. In the past ten years, the IGs have been credited with over \$100 billion in savings and cost avoidance measures in federal agencies.

The scandal at HUD broke in May when the IG's 500 page audit resulted in Secretary Kemp suspending the Section 8 Moderate Rehabilitation Program. At that point Congress began to pay attention. Since that time it has been revealed that 28 of the 48 agency programs have significant problems and fraud estimates are at \$4 billion. This was revealed by IG and special task forces within HUD.

IGs are part auditor, investigator and ombudsman, and serve as management tools for the prevention of fraud, waste and mismanagement. Under present law, IGs can only investigate and report on problems in their agencies; Congress and top-level agency managers are responsible for ensuring that problems are corrected.

Crisis in Federal Financial Management: Issues and Solutions

Edward J. Haller, Managing Partner, Price Waterhouse Office of Government Services, Washington, D.C.

The theme of your gathering this week is fraud and mismanagement in government, a subject that is of deep concern to all countries and their governments. We all know that fraud, waste and abuse are the "cancer" that attacks rich and poor governments alike. Unchecked it becomes all consuming. I would like to inform you of some recent events in the United States and their hoped for ability to improve financial accountability and stem the tide of fraud, waste and abuse we have recently been subjected to.

Despite headlines about megamergers and high-level public sector indictments what seems to be capturing the U.S. public interest is the scandals that hover over so many federal agencies. The public is becoming increasingly consumed with what is going on in our Department of Housing and Urban Development, the Defense Department and even the Internal Revenue Service. We read about misappropriation and misallocation of federal funds, low morale, greed, fraud, and even the mind-boggling admission that the federal government cannot properly account for 80 percent of its cash, as was reported recently in *USA Today*.

"The budget problems are a matter for Congress and the President, but good financial management is very much the province of the CPA and the accounting profession."

The Constitution of the United States explicitly mandates that "a regular statement and account of all public money shall be published from time." But in the 200 years since the Constitution was written we have seen little in the way of regular statements. It was not until 1921 that we even had legislation requiring the Executive Branch of the government to prepare a formal national budget—and even now, as has been seen in the bailout bill to save our savings and loans institutions, these parameters can too easily be maneuvered. Except for the rare unilateral action of the head of a specific federal agency, the only other legislation that addresses the issue of federal financial management is the Federal Managers Integrity Act of 1982. The major accounting firms in the United States and the American Institute of Certified Public Accountants (AICPA) have agreed that the only way to begin to accomplish the goal of getting a handle on the financial realities of the government is to legislate a few basic financial management reforms.

An AICPA Task Force was established for the purpose of promoting this goal. It believes that sound fiscal policy and accountability has two components: a requirement for a balanced budget and good financial management. The budget problems are a matter for Congress and the President, but good financial management is very much the province of the CPA and the accounting profession. In this light, it was felt that

information was the key to improved fiscal accountability and limiting the possibilities for fraud and abuse.

After six months of deliberation, the Task Force arrived at four specific recommendations, all of which would facilitate the gathering of essential information about the federal government's trillion dollar budget and make it possible to provide timely financial reports to the Executive and Legislative Branches of the government and to the American people—and most importantly, create an atmosphere in which fraud and abuse find it difficult to survive.

The first recommendation is the legislative **establishment of a Chief Financial Officer for the United States**. Among other responsibilities this position would be charged with annual reporting on the financial condition and results of operations of the U.S. Government. This CFO should have a separate office in the Executive Branch in order to send a message to the rest of the government that this independent position has the clout to bring about needed reforms.

The second recommendation is **for the federal government to use a generally accepted set of financial accounting and reporting standards**. There is presently no mandate for any consistent form of government-wide financial reporting standards, and we believe that as representatives of the accounting profession it is our duty to create such a mandate.

The final two recommendations are reliant on the first two. The first is **for the federal government to issue annual financial statements in a complete, consistent, reliable and timely manner, both as a whole and from each individual agency**. The last recommendation is **to require annual independent audits of these financial statements**.

These recommendations ask the federal government to submit to the same scrutiny that it requires of all publicly traded corporations and all recipients of federal funding. Quite simply, the government owes no less to the taxpayers of this country than it demands of them in similar circumstances.

The vast majority of the government work force is honest and hard working. We sometimes need to be reminded that it is the relative few that cultivate the seeds of corruption. Moreover, the accounting profession sometimes needs to be reminded how influential and powerful a force it can be, and should be. There are few areas, if any, that we have greater expertise in than what kind of accountability procedures should be used by our respective governments. We professionals have an important responsibility to our fellow countrymen to set the standards, install the systems, require the reporting, and perform the audits—and by those means provide an environment in which the financial aspects of government operate openly, accountably, timely and accurately, and in a manner in which the dishonest abusers of the systems find it impossible to flourish.

How Professional Associations Can Help Strengthen Morality in the Government Sector

Juan R. Herrera, President of the Inter-American Accounting Association

It is cause for great concern that corruption is spreading, and that every day it appears to be more normal. Each time it happens we are scandalized less. Each time we view corrupt individuals as criminals less and begin to admire their inventiveness more. We are beginning to become accustomed to corruption and little by little allowing our moral standards to become contaminated, losing our sense of the line that separates good and bad.

It is for this reason that we need to speak in increasingly clear and emphatic terms about the problem of corruption. The middle class, for its part, needs to mobilize its principal resource: the intellect, as realized through educated professionals. Professionals compose a great part of the thinking segment of the middle class, and it is on them that lies the bulk of the responsibility for providing solutions and changes. Professional associations have a great responsibility for educating, inspiring and leading the middle class in coming up with these solutions and changes, and also in promoting government ethics.

There are many ways in which professional associations can effect the changes necessary to eliminate corruption and reach a higher level of morality in government:

1. Professional accounting associations should clearly establish standards of conduct for their members as examples for society. These should be defined and incorporated into a Code of Ethics observed by each member, under penalty of disciplinary action. This Code should be known to the public so that it, too, can evaluate our conduct. The Code of Ethics should be applied by a Disciplinary Tribunal, composed of respected professionals. It should act independently and in strict accordance with the Code.
2. Professional associations should insist publicly that governments and all their officials comply with financial management responsibility—that is, account publicly for their activities.
3. Professional organizations should issue standards and professional manuals relating specifically to the public sector. These standards should require the implementation of effective internal control systems within government agencies and presentation of financial statements by the government and all its agencies in a format consistent with their accountability requirements.
4. The accounting profession, through its associations, should make specific pronouncements concerning fraud and corruption and establish standards that

clearly define the responsibility of auditors in detecting and reporting on fraud.

5. Professional associations should take the lead in promoting the institution of a separate, independent entity to audit government financial management. This entity should be directed by public accountants since the control process is fundamentally auditing—their field of specialty. We should also create favorable conditions for these entities to do their jobs effectively and independently, instituting the reforms necessary to make that possible. Part of this effort is having the entity report directly to the legislature, or at least have the legislature approve appointment and dismissal of the national auditor.
6. The associations should not just open their training programs to auditors from different government agencies, but also design programs especially for them. This type of coordination with the government can make use of association members as instructors for government training schools. In this way, a stronger relationship will be fostered between the public and private sectors.

"Professional associations have a great responsibility for educating, inspiring and leading the middle class in coming up with solutions and changes, and also in promoting government ethics..."

7. These professional organizations should also make recommendations for modernizing government agencies and eliminating bureaucracy when possible. To this end a Public Service career program should be instituted that provides security to government workers beyond the term of a particular administration. Otherwise, it will be difficult to attract and keep qualified professionals.
8. Officers of professional associations should assume a leadership role commensurate with the responsibility these associations have to the public. They should participate in public debate concerning political candidates and help to forge public opinion.
9. Finally, the need for establishing punitive measures for corrupt acts should be reiterated. As long as it is perceived that corruption does not result in punishment it will be difficult to fend off.

As officers of professional associations duty demands of us to make an effort to institute in our organizations the above changes as well as others. Moreover, these goals and responsibilities extend beyond accounting associations to those of doctors, engineers, lawyers and other—to be positive influences, oases of morality and honesty and sources of inspiration for our respective societies.

External Pre-control: Does It Reduce Corruption or Merely Cover Up Accountability Making Extortion Easier?

Antonio Sánchez de Lozada, Comptroller General of Bolivia

The term *administrative corruption* refers to the act of violating standards at an ethical, administrative or other level for one's own benefit. This phenomenon is universal. It is found in the public and private administrations of all countries and results from complex causes.

"...external pre-control has been shown through experience to distort systems of external control and produce aberrant consequences."

The development of *external pre-control* probably began as an effort to combat corruption since the existing system was incapable of dealing with the problem. External pre-control is based on two ideas: that it effectively keeps officials from breaking budgetary regulations beforehand; and that the expenditure process is subject to standards and procedures that have a natural legal basis. This justifies preventive pre-control at all levels, not just at the end of the process.

In fact, external pre-control has been shown through experience to distort systems of external control and produce aberrant consequences. First and foremost, it has not curtailed theft by low-level employees—its primary aim. In fact, it has resulted in an overweight administrative support structure in external control entities, the overhead of which has not been justified by increases in funds recovered from the public sector. It has also undermined and discredited legitimate external control activities, contributed to the politicalization of external control entities, undermined the autonomy of external control responsibilities, encouraged irresponsible financial management, inhibited the development of efficient external post-control and impeded the development of vital government accounting and auditing systems. The worst effect of external pre-control systems, however, has been the creation of a new bureaucratic caste that has become totally enured to corruption. Pre-control officials stand completely outside the structures of the agencies where they conduct their work and are accountable to no one. In this manner, external pre-control has been transformed from a way of getting rid of corruption to one of its worst perpetrators.

The establishment of the Integrated Financial Management and Governmental Control System (SAFCO) was an effort to improve the financial condition of the country and address financial management concerns while strengthening the control system. Its strategy included programing, organizing and implementation activities and the application of control and realignment instruments. Initial results of the program have led to strengthening of supervisory entities (Ministry of Finance and Comptroller General's Office) and implementation of several new control systems. These have substantially tightened basic financial operations.

A Caribbean Journalist's Opinions on Combatting Corruption in Government

Basil Buck, Financial Editor, *The Daily Gleaner*, Kingston, Jamaica

Corruption is an incurable disease that man has always found fashionable, but rather than finding a cure for it he looks the other way. In most developing countries, corruption kills—by starvation, malnutrition or in the protection of corrupt interests.

Since independence in 1962, Jamaica has undergone a most far reaching change in its attitude toward corruption in government. It has moved from having isolated cases to acceptance of corruption as the norm. In the mid-1970s, Jamaica's two major political parties became fully aware of the deficiency in accountability that existed in our democratic framework. This realization flowed out of the 1976 State of Emergency, which led to the institutionalization of what I call "Politocracy"—the corruption of power and government institutions for political ends. In that year, the relatively efficient bureaucracy left behind by the British became totally fragmented. The legislature, judiciary and administration became victims of corruption by politics.

"The level of corruption in Jamaica...dictate the need for a crusade against it on a national level rather than an exploration of individual cases."

The structure of corruption in Jamaica is a direct result of our system of political patronage. That system of political patronage has itself flowed out of our system of funding political parties. It has evolved into three distinct levels of activity, namely: the national political level, the constituency political level, and the government institutional level. As government extended its tentacles during the 1970s, corruption was not far behind. Fiduciary accountability was thrown to the wind by bureaucratic humbug and institutional inefficiency. Statutory institutions provided jobs for "the boys" and the boys enriched themselves from inflated prices and services provided to those institutions. The individuals who promote the disposition of vast sums of money through statutory institutions are in many cases benefiting in their private capacity, directly or indirectly. All this takes place even though we have an Auditor General reporting annually to Parliament, a Contractor General supposedly independent of the Government, and an Integrity Commission to which parliamentarians report annually.

The level of corruption in Jamaica—and in particular corruption in government—has escalated so dramatically in the past decade that the financial and social costs resulting from it dictate the need for a crusade against it on a national level rather than an exploration of individual cases. One may ask, how can the politicians be expected to deal with a system which is the source of their power? I believe that the people of Jamaica have had enough of corruption and are becoming cynical of government. As that cynicism increases, confidence in our form of government will deteriorate. Some day a "White Knight" will emerge that will lead the charge against corruption in government. All it needs is the political will. If there is a will, a way will be found.

Case Studies in Fraud and Corruption from the A.I.D. Inspector General's Files

James B. Durnil, Deputy Inspector General for the Agency for International Development

The United States Government and the U.S. Agency for International Development consider good accountability and good audits as critical to the success of A.I.D. developmental efforts and have embedded requirements for this in the foreign aid delivery systems. Good accountability by A.I.D.'s partners in development is indispensable to A.I.D.'s accountability.

Executive Branch agencies of the United States Government that commit public resources to foreign governments are held accountable under U.S. law to the President and Congress for their proper care and use. This is true regardless of their form or nature or who legally owns them. The U.S. Congress also decides exactly how much money is made available for A.I.D.'s economic and developmental activities. Any scandal, newspaper or television exposure or allegation of irregularity in the handling of A.I.D. furnished assistance to developing countries makes it more probable that such resources may be reduced in the future if United States citizens and their elected representatives lose faith in the integrity of those responsible for handling those resources.

Therefore, individuals responsible for handling United States foreign aid resources have a real interest in full accountability for all such resources. Where A.I.D. generated resources are handled or delivered by second parties, such as private voluntary organizations, contractors or foreign governments, the United States Government's accountability is often dependent upon the accountability of others. If another party, such as a foreign government, is involved in handling or administering money, goods or any type of resource generated by A.I.D., the other party and A.I.D. have a common interest in accountability.

What is accountability?

Accountability is the duty of anyone who handles money or goods to publicly respond to others for the manner in which the duties have been performed. If you are given a sum of money to spend for a certain purpose, you achieve accountability when you report back giving proof that you have spent all the money, or have spent part of it and are returning the remainder. Accountability can be made much stronger if some other person such as an auditor examines a paid invoice for the expenditure and counts the money returned. A publicly presented or independently verified report can be made of the matter for which one is accountable.

Auditing is not absolutely necessary to achieve accountability, but it strengthens accountability more than any other factor. Where auditors who have had nothing to do with the resource flow make subsequent verification of its correctness,

accountability is stronger. Where money and goods are handled, auditors examine the documentation and records which are compiled and summarized by accountants into financial reports. The purpose of the audit is to attest to the reliability of those documents, records and reports.

In the United States, generally accepted government audit standards require more from the auditor than just an attestation to financial reports or fund accountability statements. Financial related audits and resultant audit reports must also include a *statement on compliance* and a *statement on internal controls*.

A very important aspect of any government audit involves determining that legal and contractual requirements have been met. This is called *compliance auditing* and the auditor's report is called a *Report on Compliance*. In the United States Government, when private auditors are employed there is equal concern as to whether the recipient of the resources complied with United States laws, contractual agreements and key conditions of the grant award documents.

"Good accountability by A.I.D.'s partners in development is indispensable to A.I.D.'s accountability."

Another important aspect of a government audit is determining whether the recipient of the resources has established an internal control system to properly safeguard the resources provided. The U.S. requires auditors to make an evaluation of the recipient's internal control system and report significant internal control weaknesses.

A.I.D. policy requires that during the design or planning stages of A.I.D. developmental activities the need for an audit be considered. When project or program budgets are prepared, audit costs are to be considered and included in the budget proposal. When audits are made, the audits are to be performed by independent, professionally qualified auditors acceptable to A.I.D. Audits must be made in accordance with or meet generally accepted government auditing standards issued by the Comptroller General of the United States as revised in 1988. These standards incorporate the field work and reporting standards included in the "Statements on Auditing Standards" (SAS) issued by the American Institute of Certified Public Accountants. It is the responsibility of the auditing firm to perform a highly professional audit and ensure audit work meets professional audit standards.

A.I.D. has also established a program for engaging private accounting firms around the world to perform financial audits of A.I.D. supported projects and programs. These audits not only attest to financial representations, but determine whether the agency's partners in development have complied with the key provisions of developmental agreements and established an internal control system that properly safeguards the resources entrusted to them. This program of using private accounting firms to make audits of this vulnerable expenditure of United States taxpayer dollars has proven critical to the success of the agency's developmental efforts.

Ethics and Corruption in Financial Management in High Inflation Countries

Dr. José Luis Devoto, President of the Court of Accounts of Argentina

The factors which permit the growth of corruption in public officials are the growth of government, a lack of transparency in government activities, a lack of public scrutiny, administrative disorder and confused and ambiguous legislation. Fortunately, thanks to the growing ease of communication, illicit activities of public officials are being brought to light.

Inflation and corruption

In the last 30 years, Argentina has had one of the sharpest rates of inflation in the world. As a result, the people have lost faith in the government's ability to provide stable living conditions. This has undermined essential societal principles and beliefs in work, savings, and productivity and encouraged speculation and usury.

Inadequate financial management

Modern accounting principles and improvements in financial management, regardless of their proven worth and benefit to government accounting, have not been widely implemented. Therefore, available information is generally incomplete, biased, untimely, unreliable and basically inadequate. Consequently, corruption is difficult to interdict.

Growth of the state

The increase in state intervention in all aspects of life has not only increased the possibilities for administrative corruption, but also for a greater misuse of administrative powers.

Role of auditors in combating fraud and corruption

Government oversight must be carried out by independent, apolitical reputable auditing entities. Actions in this regard will work to decrease administrative corruption.

Public awareness

The exposure of illicit activities makes corruption much more difficult. Citizen watchdog groups and protection for whistle blowers would make it clear to officials that corruption will not be tolerated.

A Former Latin American Army General's Outlook on Dishonesty in Civilian and Military Governments

Brigadier General (r) Solón Espinosa, Former Comptroller General of Ecuador

Over the last twenty-five years, Ecuador has weathered many dramatic changes in its political-administrative history. The transition from a *de facto* government to a *de jure* government has been difficult. The lack of discipline, cronyism and poor organization in the public and private sector are factors which open the door to corruption. Today, tensions, antagonisms and uncertainties have arisen out of social, economic and political causes. These difficulties are exacerbated by the general lack of commitment to change in the political arena.

Nevertheless, a bureaucratic restructuring is essential. The crucial first step in addressing the problem is appointing honest senior executives. They, in turn, will help create an entire staff of honest public servants.

"A democracy loses its validity when its citizenry does not understand its civic rights and obligations...The word "liberty" has no meaning when large segments of the population lives in precarious economic conditions..."

These public servants will be recruited from a work force that will need to have received a strong education that will reinforce values and instill ethics. A democracy loses its validity when its citizenry does not understand its civic rights and obligations...The word "liberty" has no meaning when large segments of the population lives in precarious economic conditions...

Education plays an important role in creating an attitude of intolerance among people toward public corruption. Efforts must be made to increase the awareness at all levels of the necessity of accountability in government.

I think that the most important problem we must overcome is the lack of control. Control is not a meaningless word. On the contrary, in reference to both our responsibility and authority, it is a word which touches on our humanity, justice, honor, equity, neutrality, and sensibility. We are sensitive to its demands, we try to practice control in each of our actions before exercising it over institutions and people. Because only through a change in one's own attitude can Latin America advance.

V. CLOSING REMARKS

Hugo Pérez Cajiao, President of the Latin American Public Administration Association

The history of management has progressed in stages, with attention increasingly focused on problems of efficiency and effectiveness, human behavior as a function of productivity, and finally, with organizational development, management by objectives, quality circles and similar subjects. Meanwhile, there have been important qualitative and quantitative changes in public financial management that have expanded its sphere of action. This has been labeled as the intervention of state in society. However, in recent years it has become necessary to redefine the role of the state to reflect the new economic and social order. The fusion of these two movements, in theory and in practice, has produced the current bureaucratic scenario in which most of you work, often at the expense of family and personal comfort.

It is against this historical background that this Inter-American Conference, dealing with the complex and delicate subject of Problems of Fraud and Corruption in Government, has taken place.

Although a great many subjects were discussed over the course of this conference, none were exhaustive. Consequently, many participants have asked me to recommend the holding of a second conference within the next two years, possibly with the additional cosponsorship of new professional and civic organizations who share our objectives.

Some topics suggested for the next conference have been management of revenues and the role of the private sector in addressing the problem of government corruption. Without a doubt, these suggestions will develop into more concrete form as time passes and we are enriched with more experiences, reflections and ideas that will help us design better strategies for winning the war against corruption.

Finally, I do not wish to end this conference without quoting the reflections of Dr. Martin Luther King which are on the cover page of the invitation to this conference: "Corruption invades the land: Take your battle positions; time is running out."