Fraud and Corruption Investigation
Simulated Case Study

All persons and entities in this case study are fictitious

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PROLOGUE

According to the UN and other official sources, since 2017 rebel groups from the North have crossed the border to attack the isolated towns and villages of the South. Armed with sophisticated foreign-made weapons from unknown suppliers, the rebel attacks have forced thousands of villagers into squalid, overcrowded refugee camps. There some have languished, some for years, and remain vulnerable to further attacks and disease.

Since 2020, the army and government of the South has attempted to pacify and rebuild the region with the help of almost one-half billion US dollars from a number of international donors. One of the bigger redevelopment projects is the Southern Reconstruction Project, known as the “SRP Project (pronounced “Surp”),” financed primarily by the International Development Group (IDG).

Widespread reports from the local media, NGO’s and clergy groups have alleged that the pacification and re-building efforts have been plagued by delays and setbacks because of pervasive corruption in the army and the donor-funded Projects.

Christine Walsh of Refugees International (RI), a Geneva-based NGO, recently contacted you to report that she had just completed an extended tour of the South to assess the effectiveness of the SRP Project. She tells you that:

...she saw virtually no sign of any reconstruction work; instead she saw miles of untended, washed out roads, unfinished schools and clinics, abandoned towns and burned out villages, some still littered with the remains of villagers slain there years before. Many of the bodies were piled up outside local churches, where the villagers had sought sanctuary in vain.
Ms. Walsh reported her findings to the senior government official in charge of the SRP Project, the charming Bruno Goff. Mr. Goff disagreed with her assessment and insisted that the Project was proceeding quite nicely. When Ms. Walsh persisted in her complaints and stated her intention to publish her findings, Goff’s demeanor darkened and he advised her that “the butterfly should be careful when it attacks the crocodile” and that “she should be careful because the city can be quite dangerous at night.” She decided to accept his advice and left the country that evening.

Ms. Walsh offers to introduce you to a former senior SRP Project official who “knows the whole sad story and may be willing to talk.”
Debrief the Complainant

You begin the investigation by interviewing the former SRP official referred to you by Ms. Walsh. He agrees to meet you after hours at the IDG headquarters. He is quite nervous and concerned for his safety and insists on complete anonymity. You agree, and he provides the following information:

_He was an Assistant Director of the SRP Project from its inception in February 2020 until he quit in July 2022. He worked primarily on procurement issues and sat on many Bid Evaluation Committees._

_The SRP Project “was rotten from the beginning to the end, top to bottom.” Senior government and Project officials secretly negotiate the award of major construction contracts to unqualified companies in exchange for kickbacks of 10% to 20%, often before the Request for Bids is even published. Project officials set up shell companies to supply the project at high prices, such as leasing construction equipment or providing supposed consulting services. Many of the latter services are never performed._

_The quality of works is universally poor: contractors routinely pay the inspectors petty sums to approve substandard or non-existent works. This is done with the knowledge and acquiescence of the SRP Project officials, who want to make it easy for the contractors to make the agreed kickback payments. Any honest supervisor who manages to slip in is quickly removed by Project officials._

_Johan Kurtz is the IDG Task Team Leader for the SRP Project. Big and brash, he is a notorious figure in the development community, extremely intelligent but widely detested by the locals because of his arrogant and condescending attitude. It is rumored that he first arrived in the region years before as a member of a western intelligence agency assigned to train the armed forces of the South in counterinsurgency efforts._
Kurtz pushes especially hard for contracts to SPARROW CONSULTANTS, a small, previously unknown civil engineering company. He also favors the state-owned Chinese construction company, CHINA OVERSEAS CONSTRUCTION COMPANY (COCC), where the formidable and lovely Madam Fong was the local Manager. At least he did so until Ms. Fong was transferred back to COCC’s Beijing headquarters, after which he seemed to lose interest in the company.

On one occasion, before Ms. Fong left, the Confidential Source recalls, Kurtz came to his office late in the day, after the other staff had left, and threatened to have his “head on a stake” unless he dropped his opposition to a $175 million contract award to COCC on the major Northern Corridor road project. The Source favored another, more qualified company that offered a much better price. The Source refused to change his position, but Kurtz went over his head, ordered that the other bidder be disqualified and the contract awarded to COCC. Thereafter Kurtz excluded the Confidential Source from all future Bid Evaluation Committees.

* * *

Very late the next day you meet with Howard Anderson, the IDG Regional Director stationed in the Capital City. He is curious about the allegations and offers to help in any way he can. You ask him if he is aware of any wrongdoing in the SRP Project.

Anderson says he has heard rumors of corruption in SRP – there are rumors everywhere, he says – but he has no proof. He smiles when you mentioned Kurtz but says only that “now that is a mystery that is hard to unravel.” When pressed, he says that Kurtz “lacks people skills” but he is otherwise “tough but honest” and quite effective in getting the job done. “It’s not easy working in the South,” he adds.

As you get up to leave, Anderson comments that Kurtz lives in a “mansion” outside the capital. “It’s the nicest and most expensive house in the country,” Anderson
says, “none of the locals could afford it.” “Kurtz likes to host lavish parties there for Ms. Fong and other Chinese big shots,” Anderson says, and adds that it is rumored that the Chinese helped Kurtz build the house. “You should go see it,” Anderson says, “It’s really something.”

* * *

A few days later Ms. Walsh re-contacts you and reports that the Confidential Source whom she had introduced to you was tragically killed the night before while crossing the town square in front of the Central Train Station. According to the police report, he was hit by a truck transporting arms to the North and killed instantly.

Questions

1. How would you respond to Anderson’s questions about your investigation?
2. What would be your next step?
Test the Allegations and Review Relevant Procurement Documents

You begin the tedious but necessary process of collecting and reviewing the relevant Project documents based on the information received from Ms. Walsh and the Confidential Source.

You are looking for confirmation of the Confidential Source’s claims and other red flags of misconduct. The records fill two large file cabinets and spill over into your workplace.

You learn the following from your review of the documents:

IDG’s SRP Project Evaluation Reports (prepared by Kurtz) indicate that the Project was progressing “satisfactorily,” while the draft Interim Assessment Report (also prepared by Kurtz) states that the Project is “Moderately Successful” and has “largely achieved its objectives” to pacify and rebuild the region and resettle the refugees. This, of course, contradicts the information you received from the Confidential Source and photographs provided by Ms. Walsh, including the photo above. You note that Anderson writes in the margin of one of Kurtz’s reports that “your descriptions of the accomplishments of the SRP Project seem just a wee-bit optimistic.”

Regarding the award of contracts, the procurement files revealed:

SPARROW CONSULTANTS, the firm allegedly favored by Kurtz, won 9 of the 10 consulting contracts for project design and supervision - the only proposal it lost was on a project component on which Kurtz was not involved. It supervised all of the large road and construction contracts, poorly implemented by COCC, and routinely approved the Chinese’ requests for payments and change order requests. SPARROW also benefited from substantial contract amendments,
approved by Kurtz, which on several occasions almost doubled its original contract price.

You see that the local construction company STRAMAN BUILDERS LTD won two road repair contracts early in January 2020, with a total value of $33 million. The files reflected that the company experienced substantial delays from the beginning of its contracts. STRAMAN complained in writing that the contract specifications prepared by SPARROW were inadequate. For example, the specs for the 110 kilometer Cannan to Karum road segment failed to disclose that the soil conditions consisted largely of subsurface rock, rather than the soft soil reported in the engineering and bidding documents. STRAMAN requested additional funds to blast the rocks, which Kurtz denied, causing more delays and expense.

Again according to the files, Kurtz began to withhold STRAMAN’s contract payments in late November 2020, and thereafter argued that its contracts should be canceled and moved to China Overseas Construction Company (COCC).

Fatigued by the tedium of days sorting through dreary procurement files, you decide to take a break and relax with some more interesting reading, including your favorite magazines, Industrial Leasing Review and Self-Storage Quarterly. Refreshed, you start to go through Kurtz’s emails and see there an email from an independent construction supervisor assigned to a COCC road construction project. The email forwards his resignation after “a year of frustration” trying to ensure that COCC adheres to its contractual requirements.

Questions:
1. What other documents would you ask for?
2. Who might you want to interview?
3. What other steps would you take at this stage?
Interview Cooperative Witnesses

You interview Mark Jacobs, the independent construction supervisor assigned to the COCC Northern Corridor contract, who tells you the following:

*COCC delayed its start for 6 months on the Northern Corridor contract because it was overloaded with work elsewhere in the South. Normally this would subject the company to significant delay penalties, but he saw the COCC site manager give bundles of cash to the local SRP officials every two or three weeks to excuse the delays.*

*Jacobs adds that the construction materials and equipment stored at the site do not meet contract requirements.*

*Jacobs says the local SPARROW rep, who had overall supervision responsibilities on the entire Project, was aware of COCC’s delays but looked the other way. Kurtz also seemed unconcerned by the delays, ignoring Jacob’s many emails on the topic.*
Do Background Checks

You next conduct standard background checks on the major players in the case, including SPARROW CONSULTANTS, COCC, STRAMAN and KURTZ.

You learn that SPARROW is incorporated in the British Virgin Islands, a secrecy jurisdiction, and has only one listed employee, its “CEO,” who also is employed full-time elsewhere. SPARROW does not have a website, and is not listed in Dun and Bradstreet or other business directories. Its listed address comes back to a fiduciary company in Zug (above) that provides administrative services for it and scores of other small companies.

There is little relevant information available on COCC, other than the standard complaints about poor quality work by it and other state-owned Chinese companies. COCC was temporarily suspended by the World Bank Group in Mozambique for unspecified “fraudulent practices” in 2019, and re-instated six months later.

The background check on STRAMAN reveals that the company was incorporated in 2001 and had won a large number of prior construction contracts in the region, mostly in the road sector. You found a few local press articles and on-line media reports complaining about the company’s slow performance on road projects in Kenya and Tanzania in 2016 and 2018, respectively.

There are no references to Kurtz on-line. His IDG HR file reflects that he is a civil engineer and has been employed at IDG as a Senior Transport Specialist for more than ten years. His current salary is the equivalent of US $140,000 annually, which has increased incrementally from $112,000 since he joined the IDG in 2016. He is divorced and has one son studying at the London School of Economics.
His HR file contains a number of written complaints from local Government and SRP Project officials for his alleged abusive behavior to local staff and favoritism to certain companies, primarily FELIX. One of the officials complained that he observed Kurtz change the evaluation scores in a tender to allow SPARROW to win a contract for which it was not the most qualified. Howard Anderson reviewed and rejected each of the complaints, responding that he had full confidence in Kurtz.

Kurtz’s business telephone records include a number of calls to and from the CEO of FELIX, some of which occurred during the time that SPARROW was involved in the proposal evaluation process.

You take a day off and travel to the outskirts of the capital to see Kurtz’s home. It is indeed a “mansion,” situated on large, beautifully landscaped grounds. Smartly uniformed armed guards protect the gated estate.

Kurtz’s IDG travel records show frequent personal trips to the UK, his permanent place of residence, with stops in Zurich, followed by one to two day layovers.

Questions:

1. What other background checks could you have conducted?
2. Would you pursue an investigation of Kurtz’s house at this stage?
3. What other steps would you take at this point?
Determine if there is Sufficient Predication to Proceed

You meet with Ludlow Bushman, the Regional Team Leader for IDG’s Investigations Unit, to assess the evidence collected thus far and to determine how, or whether, to proceed further.

Bushman says he is disappointed at the progress of the investigation to date. Where is the evidence of any bribes?, he asks, and says you would have been much further ahead at this stage if you had paid attention at one of his acclaimed training courses. He questions whether you have collected enough evidence to justify the time and expense that would be required to complete the investigation.

Questions:

1. Do you believe there is adequate predication to continue the investigation? Why or why not?
2. What potential offenses do you think you have identified to date?
3. If you decide to proceed, what would be your next steps?
Begin the External Investigation, Trace Corrupt Payments, Obtain the Cooperation of an Inside Witness

Bushman decides to let you proceed. You begin to organize what you hope will be the final steps of the investigation.

You draft an investigation plan that includes interviews of losing bidders and exercising contract audit rights on SPARROW and COCC. You also start to plan a personal financial investigation of Kurtz, beginning with obtaining information on his assets and liabilities, his income and expenses.

Interviews of other losing bidders produce little useful evidence. More than one says “everybody in the industry knows that Kurtz owns FELIX,” but none can provide actual evidence or useful leads. One losing bidder says he had heard a former STRAMAN manager say the company had “learned how to handle Kurtz.”

You exercise IDG’s contract audit rights on SPARROW at its Swiss “headquarters” and find few records and no evidence of Kurtz’s ownership. You do note, however, that SPARROW is paying what seem to be very high rental fees for its temporary local office, which lacks even basic amenities. You also note monthly payments of several thousand US dollars to an account in the UK.

You notify COCC of your intent to exercise audit rights on its Northern Corridor contract. The company replies that all of the requested records are in Chinese at its Beijing headquarters. You don’t speak the language, but plan to pick up a “Let’s Talk Chinese” phrase book at the airport bookstore and head to Beijing, but Bushman nixes the idea, saying there is no money in the budget for such an excursion.

*   *   *

Intrigued by the losing bidder’s comment about STRAMAN knowing “how to handle Kurtz,” you approach the former STRAMAN manager and ask for a meeting. The former manager at first declines to meet, but after considerable persuasion and assurances, he agrees to meet at an isolated location and speak off the record.
He tells the following story:

_In February 2021, about a year into its SRP contracts, STRAMAN ran into severe financial problems because of problems Kurtz created, putting the company near bankruptcy and costing the witness his job._

_At that time two men approached the company – one a wealthy Middle Eastern businessman with substantial business interests in the South, the other the head of the South’s armed forces and the brother of the President._

_The two men said they could assist the company to solve its problem with Kurtz in exchange for the payment of $750,000. After some initial hesitancy, the company decided it had no choice but to pay, and signed a phony consulting contract (above left) with a shell company owned by the Middle Eastern businessman - Maxima Telecom LLC - for the amount of the payment to disguise its purpose._

_STRAMAN paid the bribe money - which the former manager characterized as “an extortion” - over the next several months in four increments. The payments were wired to an account at a Global Bank branch in London in the name of Trade Winds Ltd. (not Maxima Telecom). Trade Winds appeared to be another shell company owned by the businessman. STRAMAN made the final payment in November, 2021._

_One week later, IDG approved the extension of STRAMAN’s contract and the company was reimbursed the full amount of the contract payments that had been withheld._

The witness agrees to provide you with copies of the payment documents and bogus consulting contract the next day.
Early the next morning you find the promised documents in a blank envelope on a chair in your office. They include copies of wire transfer receipts for the four payments by STRAMAN in the amounts of USD $200,000, $250,000, $150,000 and $150,000, spaced over several months, to an account in the name of Trade Winds LLC, Ltd. at a Global Bank branch in London, just as the former STRAMAN manager had reported. The last payment was made November 28, 2021.

You conduct background checks on Trade Winds LLC Ltd., the Middle Eastern businessman and the government official, and learn that:

Trade Winds is a shell company with no apparent actual business activities, organized in the British Virgin Islands, as was SPARROW CONSULTANTS. The Middle Eastern businessman is listed as the owner of the company in the UK Companies House website; the company was never active and was dissolved in January 2022.

Of greater interest, the businessman - described as a “billionaire” in some accounts - is identified in several media reports as a prominent international arms dealer under investigation by the UN for illegal arms trafficking. He reputedly was involved in a recent scandal with the head of the South’s armed forces involving the purchase of defective Russian helicopters.

The head of the South’s armed forces is described in several on-line media sources as one of the most corrupt and powerful men on the continent. He also allegedly is involved in illegal arms and diamond trading, and is considered to be untouchable because of his wealth and relationship with the President.
Questions:

1. What leads, if any, did you find on possible illegal payments? How would you follow up?

2. How would you follow up on the payments by STRAMAN?
Trace Corrupt Payments, continued

You make informal inquires with your law enforcement contacts to begin to trace the STRAMAN payments to Trade Winds, in preparation for a later, formal request for international legal assistance.

Your sources advise you that most of the funds wired to the Trade Winds account were promptly transferred to an account in Mauritius in the name of MultiTech, LLC, and from there to an account in the name of TransOceanic Ltd. at a small private bank in Zug, Switzerland. At that point your informal sources of information dry up.

You help IDG prepare a formal request for Mutual Legal Assistance (an “MLAT” Request) to the UK, Swiss and Mauritian authorities, asking them to provide evidence of the disbursement of funds from the Trade Winds, MultiTech and TransOceanic accounts. This may take some time to accomplish.

Questions:

1. What are your next steps?
Interview the Primary Subject

In the meantime you begin to prepare for an interview of Kurtz, who unexpectedly announces that he will leave IDG next month.

As you review his emails, you note that Kurtz consistently opposed the extension of the STRAMAN contract.

You also see that on January 5, 2022, an IDG Procurement Specialist, with the approval of Anderson, agreed to extend the STRAMAN contract and to reimburse the withheld contract payments. At that time Kurtz was away on temporary assignment. The files indicate that Kurtz was notified only after the fact.

This was not what you expected to see.

As youponder the significance of this, you collect all of the pertinent documents and summon Kurtz for an interview.

Questions:

1. What is the significance of the information you discovered regarding the extension of the STRAMAN contract?

3. Would you interview Kurtz at this point?

4. How would you plan the interview of Kurtz? What topics would you cover, in what order?

5. What documents would you ask Kurtz to produce?

6. How would you respond in Kurtz refuse to appear, or refused to answer questions and produce documents?
Interview the Primary Subject, cont.

Kurtz appears early for his interview, initially quite cordial and cooperative. In summary, he provides the following information:

*He admits interfering in the procurement process, which is strictly forbidden by IDG rules* (Under IDG rules, local Project officials are to be solely responsible for procurement and implementation of contracts), because the locals are all “corrupt” and “idiots,” and he had to intervene to ensure that the works were done correctly.

*He cancelled the STRAMAN contract because of the company’s constant delays, incompetence and corrupt dealings with the locals.* He thinks that Anderson reinstated it because he is weak and succumbed to pleadings from the company.

*He has no ideas who owns SPARROW and denies any efforts to rig contracts in its favor.* SPARROW performs as well or better than any other supervision firm, large or small, so he sees no problem with the company.

*He denies involvement in any corrupt activities.*

*He built his house outside the capital with funds he has accumulated and inherited from his wealthy parents.* He declines to provide further details on his source of funds or his background before he joined IDG because “it is none of IDG’s business.”

When pressed on this issue, he becomes irate and leaves the interview.

Questions:

1. What other topics would you cover in the interview?
2. How would you respond to Kurtz’s refusal to answer questions about his personal finances? About his background?
Trace Corrupt Payments, continued

Shortly after the Kurtz interview, Howard Anderson invites you to his personal residence for a party to celebrate the South’s Independence Day.

You notice his home is quite nice (although not nearly as impressive as Kurtz’s), and is filled with what appear to be very expensive pieces of art and sculpture from various parts of the world. Knowing something of art, you compliment Anderson on his good taste and ask where he acquired the pieces. He replies that he collected them over the years during his travels with the IDG. He says many of the items are just “knickknacks” and curiosities he picked up here and there. They do not appear to be “knickknacks” to you.
Trace Corrupt Payments, continued

Sometime later the UK, Swiss and Mauritian authorities file their responses to your MLAT requests to trace the $750,000 payment by STRAMAN to its ultimate destination.

You learn that from 2022 to the present the TransOceanic account has disbursed funds to a Credit Suisse account in the name of InterTek Traders LLC, which in turn has wired more than 150,000 Euros to art dealers in Paris, Basel, Cairo and Nairobi.

You also learn that during the same time period InterTek wired more than 4 million Euros to accounts associated with illegal arms dealers in Russia and Serbia for the purchase of AK-47’s, other weapons and ammunition. Further investigation reveals that InterTek sold the munitions through local middlemen to the Northern rebels and other such groups in the region.

You are disappointed but not surprised.

Questions

1. What remains to be done to complete the investigation?
Prepare the Final Report

Questions:

1. What companies and individuals would you charge for what offenses? Cite the evidence you would use for each element of the offenses.