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As Corruption Continues, Costa Rican President Laura Chinchilla Creates Elite Unit to Crack Down on Fraud

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Two major corruption scandals shook Costa Rica in October 2004. In unprecedented, almost simultaneous cases, two former presidents—one the son of another Costa Rican president—were arrested, put under preventive detention for more than a year, convicted on corruption charges, and sentenced to serve five-year prison terms (NotiCen, Nov. 4, 2004). Both appealed their sentences, one got his reduced to three years and is free on parole, and the other is waiting for a ruling and is also free.

In the almost eight years since both bombshells exploded in a country not used to such news, corruption reports have become an almost everyday commodity in local media.

The past administration of President Óscar Arias (2006-2010) had its share of such news and so has the present government, now in the middle of its four-year term ending in 2014. President Laura Chinchilla’s administration has been severely hit by both external and in-house cases of wrongdoing while in public office.

On the external front, for example, corruption allegations have surfaced regarding management of election funds by campaign authorities of the ruling social democratic Partido Liberación Nacional (PLN), one of Costa Rica’s traditional political organizations.

Also, one of the PLN’s 24 members in the Asamblea Legislativa (AL)—this Central American nation’s unicameral parliament—has been formally charged with bribery, extortion, and influence peddling. He no longer enjoys parliamentary immunity regarding this case and awaits trial.

More recently, the secretary-general of the Partido Accesibilidad sin Exclusión (PASE)—a party that upholds the rights of people with disabilities and a new PLN ally in the AL—has been signaled out by the opposition as being involved with drug traffickers.

Local media reports say that PASE’s secretary-general Hugo Navas was arrested in 1999, accused of attempting to bribe a judge with a US$6,000 offer in exchange for the release of two Mexican citizens charged with drug-related crimes, for which he spent two months in prison.

Cabinet ministers involved in tax-evasion scandal

Closer to home, on the internal front, the government has been shaken since the end of March by a tax-evasion scandal involving high officials. On the morning of March 26, the influential Costa Rican daily newspaper La Nación began publishing the results of investigative reporting on high officials’ tax returns.

The morning daily reported that, for tax purposes, 11 Costa Rican ministers individually undervalued real estate property for a grand total of some US$22.4 million, and, after the journalistic investigation began, seven ministers quickly updated the value of their property, for a global US$1.2 million dollars.
The explanations the ministers gave the newspaper included that they had forgotten to inquire about their property’s new value or that their City Council had not updated the information for them. According to tax legislation in force, owners must update their real estate’s value every five years.

Quoted that morning by the daily, Francisco Villalobos, head of the Ministerio de Hacienda’s tax system (Dirección de Tributación Directa), warned that "laws exist...and people must comply with them."

One of the 11 was none other than Finance Minister Fernando Herrero, the country’s top tax official, who, according to La Nación, had not updated for a decade the value of his real estate possessions.

Six days later, on April 2, Herrero resigned as did his wife, Florisabel Rodríguez, who was a presidential consultant on public relations and communications.

The next morning, La Nación followed up with a report that a consulting firm founded in 1998 by Herrero and Rodríguez omitted income worth US$100,000 in its tax return. For fiscal year 2009-2010, the firm—Procesos, Investigación y Asesoría CA—reported income worth some US$41,000, but other documents indicated that the company’s actual earnings were then in the neighborhood of at least US$142,000, the newspaper reported.

Furthermore, in the wider period ranging from October 2009 through December 2011, Procesos was awarded contracts worth at least US$192,000 by the government, a state company, and PLN, the newspaper pointed out. "Contracts were allotted by the Office of the Presidency (2011), the Refinadora Costarricense de Petróleo (RECOPE), the state-owned oil refinery, (2011), and the PLN (2009-2010)," La Nación reported.

As La Nación was putting out additional data from its investigation, another resignation was taking place—that of Villalobos—on April 4. The head of tax collection was reported by the newspaper as having a pending income tax payment worth some US$3,600 dating back to 2008.

But the revenue scandal’s fallout was still to be felt. Four days later, the newspaper made yet another revelation: the RECOPE contract award, for public relations consulting, was not altogether transparent. Not only did the refinery abbreviate the procedure—from one week to two days—but it invited three companies—none of them Procesos—to take part in the bid, only they were not consultants but in the construction-hardware business; thus, they did not participate.

Procesos was not invited but took part in the bid because, as Rodríguez told La Nación, the firm learned about it through RECOPE’s Web site. The contract, worth some US$34,000, was awarded to Procesos.

New unit created to fight tax evasion

Hours after the RECOPE-Procesos story broke on April 10, Communications Minister Francisco Chacón told a press conference that Chinchilla had decided to set up, within three months, an elite, 10-strong unit responsible for analyzing what he described as particularly harmful tax-evasion cases.

"An executive decree will be signed to create a special unit against fraud (Unidad Especial de Análisis y Acción Contra el Fraude Complejo)," said Chacón, a former PLN deputy. "Resources will be earmarked" for the unit "to attract and retain a group of elite auditors to act on fraud plots that..."
are most harmful to society. Thus, expert people on those topics, from various sectors of science and technology will be able to help in this struggle. With this unit—expected to be ready within the next three months—the hope is to count on a 10-person team dedicated exclusively to tackling the issue of complex tax fraud."

Two days later, an attorney with the Ministerio Público (MP) told a local radio station that the MP had decided to begin an inquiry in the RECOPE-Proceso case. The investigation launched on the basis of what La Nación, followed by other media, was reporting is aimed at determining whether the crime of influence peddling against the government has been committed, attorney Juan Carlos Cubillo told Radio AND.

Early on April 19, Organismo de Investigación Judicial (OIJ) agents and MP anti-corruption attorneys began a search at RECOPE as well as Proceso headquarters, which later included Herrero’s residence at an exclusive condo on the western outskirts of San José, the Costa Rican capital. The evidence obtained during the searches, which continued until the evening, is being analyzed by the MP.

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