

NOTE



MILICOGATE

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- The case was uncovered by a journalist Mauricio Weibel, The Clinic newspaper. Audio-statements from the Military Prosecutor's Office and the Ministry of Defense revealed that false invoices were frequently used in the Chilean army under the Reserved Copper Law. The total loss amounts to 2.200 million pesos.
- The altered invoices were issued between 2010 and 2014. In 2011 a colonel Miguel Cantallopts delivered an intelligence report which included a description of a fraudulent scheme with false invoice used for embezzlement. Jorge Burgos, the ex-minister of defense and now the minister of internal affairs, was notified in January 2014 but failed to communicate with the Internal Revenue Service almost for 12 months until last December.
- The revealed information pointed at the Command Support Force (CSF) and its Financial Planning Department. CSF is a unit responsible for processing of funds related to the Reserved Copper Law. The unit was run by Clovis Montero. Reserved Copper Law keeps military purchases classified and not accountable to the Comptroller General of Chile.
- Numerous testimonies indicate that during last 3 years civil servants of the Command Support Force have been receiving orders not to review invoices and process them without calling into question. False invoices were issued for goods and services that were not rendered.
- For example: purchases between 2010 and 2014 from companies Frasim, Raúl Fuentes Quintanilla and Power-Ti that invoiced for services which have never been provided. Power-Ti deducted and received advanced funds. Later the Army was contacted by financial institutions suspecting illicit transactions.
- The fraud involved funds assigned to purchase of weapons by Ministry of Finance and Ministry of Defense. The fraud involved residue of payments controlled by the project managers and the Command Support Force.
- The order to execute invoices without review came from the general Jorge Salas and a colonel Fernando Grossi in 2012.

- In September 2015 the case received attention of the Ministry of Defense after the Deputy Secretary of the Armed Forces, Gabriel Gaspar, reported suspicious transactions and submitted invoices issued by a company Frasin between June and November 2013. The total amount of 117 transactions exceeded 370 million pesos.
- On September 16, 2015 the Comptroller General's Office revealed more information. According to the general Luis Chamarro, since 2011 more than 124 false invoices issued by a company Raúl Fuentes Quintanilla were paid by the army without preliminary authorization of the Internal Revenue Service. In total, 555 million pesos were illicitly paid to private firms.
- Deputy Secretary of the Armed Forces informed Military Prosecutor's Office that payments for invoices issued by Raúl Fuentes Quintanilla and paid under the Reserved Copper Law exceeded 1.400 million pesos.
- Fraudulently obtained funds were spent on parties, real estate, horses and in casinos. Moreover, there is a possibility that part of the money was spent on illicit financing of political campaigns y irregularities in peace operations in Haití.
- The special inspecting judge of Court of Appeal of Santiago, Omar Astudillo Contreras, issued a bill of indictment for fraud under the Reserved Copper Law which involved payments to the companies "Tecnometal" and "Frasim" that allegedly provided services to the Chilean Army.
- Judicial proceedings started on February 5, 2015 and on February 8 the case was published at the national legal database Poder Judicial.
- The resolution issued by the judge Astudillo indicates that Juan Carlos Cruz Valverde, Liliana Francisca Villagrán Vásquez (related to the companies Tecnometal y Frasin), Clovis Alejandro Montero Barra (related to Frasin) are accused of forgery and fraud against national tax authorities. Another defendant, Villagrán Vásquez, is taken into custody.
- The following information about invoices issued by Tecnometal was collected during the investigation:

1) Between September 2011 and December 2013 Pedro Salinas Reyes (or "Tecnometal") invoiced the Chilean Army 233 times in the amount of \$1.389.608.049;

- 2) To secure payment, third parties forged supporting documents and falsified signatures creating an appearance of truthful and honest behavior;
- 3) Most of the invoices were handwritten and signed by unauthorized persons, such as "typists" and "account managers" from the Financial Planning Department (part of the Command Support Force), but entitled to define expenditures on goods and services, and process invoices for endorsement by the Military Treasury;
- 4) Then, the Treasury transferred money to supplier's bank account. This payment has always been immediately transferred to other accounts and partially cashed out;
- 5) Under this scheme the Chilean Army paid \$1.389.608.049 for never provided goods and services.

As for the company Frasin, the following facts were presented to a judge Astudillo:

- 1) Between October 2011 and December 2013, a colonel of the Chilean Army requested and received 161 invoices from Huincahue Necuñir-FRASIM;
- 2) According to the official report of General Command of the Army Garrison, the Metropolitan Region, it has not purchased any goods or services, neither had a procurement contracts with Francisco Huincahue Necuñir-FRASIM between 2011 and 2014;
- 3) The false invoices and forged supporting documents were mostly handwritten and issued by unauthorized persons who worked with the Financial Planning Department of the Command Support Force. These invoices were signed by "typists" and "account managers", who, in fact, were authorized to define under the Supreme Decree what prices are deemed to be reasonable for the purposes of receiving services and entering into procurement contracts. Moreover, the same people were allowed to process invoices to be paid by the Military Treasury;
- 4) The Treasury made a payment to supplier's bank account, which immediately was transferred and partially withdrawn. After that, the supplier keeps the value of VAT and over 15% of a net value of the invoice, while the rest of a payment in cash or "notes" goes to the Army colonel mentioned above;
- 5) As a result of the fraudulent scheme flourishing under the Reserved Copper Law, in total \$1.389.608.049 were paid by the Chilean Military Forces for goods and services that have never been provided.

THE FUENTE-ALBA CASE.

- The TVN show Special Report uncovered a multimillion fortune of a former Commander-in-Chief of the Chilean Army, general Juan Miguel Fuente-Alba, whose assets amount to \$3,000 million that many times exceeds what he could earn as a head of military forces.
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- According to the TV story, a colonel Clovis Montero is the primary defendant in this case. He served at the Command Support Force of the Army and knew about transactions carried out by Fuente-Alba which, according to forensic experts, may cover such crimes as money laundering.
- During a private conversation with the ex-Comptroller of the Army, General Jojo Santic, Montero said that he thought he had been under investigation for embezzlement, as well as a company Klassik Car that closed a number of deals with Fuente-Alba between 2011 and 2014.
- According to this version, Commander-in-Chief of the Chilean Army returned 7 cars acting in conspiracy with the general manager of a car dealer, Klassik Car, José Miguel Donoso, who held his post until 2013. José Donoso sold cars to Fuente-Alba at a cost price. Later cars were returned and sold at a full price. For example, if a price of a car was 50.000, it was sold for 80.000 and Fuente-Alba received the difference.
- The refunds were made under revocation agreements where parties agreed don't enforce the original contract.
- According the special inspecting judge Astudillo, such acts are frequently used to cover illicit transactions and sometimes – money laundering.
- Between 2005 and 2014, Juan Fuente-Alba bought and sold 12 cars. All of them were registered in the Registro Civil, yet there is no information about any revocation agreement.
- Also, the investigation revealed numerous transactions between Mr. Fuente-Alba and members of his family which took place since 2005 and involved purchase and sell of expensive property.

10 PROPOSALS TO FACE THE MILICOGATE.

1. Changing the financing system by the law “Reservada del Cobre”, establishing a mechanism ad hoc which, on the one hand, assures transparency and control and, on the other hand, stability in expenses, renovation of war material and a good functioning of our Armed Forces. Specifically, this means determining a financing plan of at least 4 years, proposed by the Executive and approved by the Congress, which is to be sent in the second year of government in each period.
2. Efficacious parliamentary control of the Defense Commissions of expensive armament purchases, keeping the necessary reservation but assuring effective control. It is proposed that the integration of these committees is limited to a period of 2 years at most.
3. Providing the General Board of Audit (Contraloría General) of the Republic with more legal competences and with real technical capacity in order to specifically execute the control in this sector.
4. Effective and disaggregated disposal of the reserved expenses that are personally presented to the General Comptroller of the Republic. The violation of this reserve must be penalized as a crime with the corresponding punishment and causes the immediate suspension of the functionary who committed the offense, with the respective disablements.
5. Obliging those commercializing luxury cars as well as real-estate companies to report suspect or uncommon operations of public functionaries.
6. Revising the sanctions for non-reporting of suspect operations of the actors in charge (banks, casinos, exchange offices etc.), as well as establishing penalties for the public bodies who do not initiate investigation processes when confronted with denunciation
7. Creation of an effective system which allows anonymous denunciations within the Armed Forces, incentivizing serious and rigorous mechanisms of compensated notification, with a real system of protection and compensation of the witnesses.

8. Create a register of providers and manufacturers of armament and military material serving to sign contracts with the Armed Forces, as well as prohibiting purchases via intermediaries or facilitators.
9. Accelerate establishing the Norms of Accounting in the Public Sector (Normas de Contabilidad del Sector Público, IPSAS) within the Armed Forces, in the same way as superior authorities are publicly rendering accounts on patrimony, accounting and management. This information needs to be published in the format of open data.
10. Should the law “Reservada del Cobre” not be modified, a maximum limit of annual ingresses for the Armed Forces needs to be determined.